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|  Finance & Audit Scrutiny Committee 1 June 2016 | | Agenda Item No. 7 |
| Title | | Internal Audit Annual Report 2015/16 |
| For further information about this report please contact | | Richard Barr Tel: (01926) 456815 E Mail: richard.barr@warwickdc.gov.uk |
| Service Area | | Finance |
| Wards of the District directly affected | | Not applicable |
| Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006 | | No |
| Date and meeting when issue was last considered and relevant minute number | | Finance & Audit Scrutiny Committee – 10 June 2015 |
| Background Papers | Accounts and Audit (England) Regulations 2015 Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE 2007) Delivering Good Governance in Local Government: Framework (Addendum) (CIPFA/SOLACE 2012) Delivering Good Governance in Local Government: Framework and Guidance Note for English Authorities (CIPFA/SOLACE 2012) The Annual Governance Statement – Rough Guide for Practitioners (CIPFA Financial Advisory Network) Internal Audit Reports Public Sector Internal Audit Standards Quarterly Progress Reports Post-audit client questionnaires and satisfaction surveys | |

| | |
|--|-------------------------------------|
| Contrary to the policy framework: | No |
| Contrary to the budgetary framework: | No |
| Key Decision? | No |
| Included within the Forward Plan? (If yes include reference number) | No |
| Equality & Sustainability Impact Assessment Undertaken | N/A: no direct service implications |

| | | |
|---|-------------|------------------------|
| Officer/Councillor Approval | | |
| With regard to officer approval all reports <i>must</i> be approved by the report author's relevant director, Finance, Legal Services and the relevant Portfolio Holder(s). | | |
| Officer Approval | Date | Name |
| Chief Executive | 15 May 2015 | Chris Elliott |
| Section 151 Officer | 15 May 2015 | Mike Snow |
| Monitoring Officer | 15 May 2015 | Andrew Jones |
| Finance | 15 May 2015 | As Section 151 Officer |
| Leader of the Council | 15 May 2015 | Councillor Mobbs |
| Portfolio Holder | 15 May 2015 | Councillor Whiting |
| Consultation and Community Engagement | | |

| | |
|--|-----|
| Consultation with members and officers listed above. | |
| Final Decision? | Yes |
| Suggested next steps (if not final decision please set out below) | |

1 **Summary**

- 1.1 Forming part of the evidence for the Annual Governance Statement, the Internal Audit Annual Report presents a summary of the internal work undertaken during 2015/16 and provides a conclusion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

2 **Recommendation**

- 2.1 That this Committee considers the Annual Report of Internal Audit for the year ended 31 March 2016 as part of its consideration and approval of the Annual Governance Statement 2015/16.

3 **Reason for the Recommendations**

- 3.1 The Public Sector Internal Audit Standards that the Council's Internal audit Service must comply with requires that "The 'chief audit executive' must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement."

4 **Policy Framework**

- 4.1 Although there are no direct policy implications, Internal Audit provides a view on all aspects of governance and will take into account the Policy Framework, Community Plan and the Council's policies.

5 **Budgetary Framework**

- 5.1 Although there are no direct budgetary implications arising from this report, Internal Audit provides a view on all aspects of governance including that of the Budgetary Framework. An effective control framework ensures that the Authority manages its resources and achieves its objectives economically, efficiently and effectively.

6 **Risks**

- 6.1 Risk management is an intrinsic element of corporate governance of which this report is concerned.

7 **Alternative Option(S) Considered**

- 7.1 This report is not concerned with recommending a particular option in preference to others so this section is not applicable.

8 **Background to the Annual Governance Statement & Requirement for Internal Audit Annual Report**

- 8.1 The Public Sector Internal Audit Standards state:

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- *the opinion;*
- *a summary of the work that supports the opinion; and*
- *a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.*

8.4 The Annual Report is set out as Appendix 1.

**Head of Internal Audit's Annual Report and Presentation of
Audit Opinion 2015/16**

Introduction

This report is produced to satisfy the Public Sector Internal Audit Standards which requires that:

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- *the opinion;*
- *a summary of the work that supports the opinion; and*
- *a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.*

Opinion on the overall adequacy and effectiveness of the Council's control environment

The Public Sector Internal Audit Standards states that "*The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory.*"

Based on internal audit assignments undertaken as part of the Audit Plan, it must be concluded that the Council has an adequate and effective governance, risk management and control framework to address relevant risks with controls being consistently applied.

There were, however, some instances of non-compliance that were detailed in internal audit reports issued during the year. These were reported to Finance & Audit Scrutiny Committee and, in the case of the overall level of assurance for an audit assignment being assessed at less than 'substantial', the full report was issued to Committee as part of the agenda papers. Action to address these issues has been confirmed by management in all cases, with urgent action being taken where those issues were regarded as significant.

There are no qualifications to that opinion, although clearly it is based on the audits undertaken during that year. The Council's external auditors form their own opinion based on their own work and the Annual Governance Statement provides an overall judgement on the control environment, derived from many sources, one of which is this Internal Audit Annual Report.

The Public Sector Internal Audit Standards states that "*Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.*"

The Audit and Risk Manager can confirm that he does not believe that the level of agreed resources has impacted adversely on the provision of the annual internal audit opinion.

Summary of the internal work undertaken during 2015/16 from which the opinion on the internal control environment is derived

The audits which form the basis of the opinion are set out as table in Appendix 1A. The results of these audits have been communicated to the Finance and Audit Scrutiny Committee each quarter and are therefore not reproduced here. Each audit report, however, gives an overall opinion on the level of assurance provided by the controls within the area audited and this is set out in the table. The bands of assurance are set out at the bottom of Appendix 1A.

Appendix 1A indicates that internal controls were in the main found to be operating satisfactorily, giving an overall confidence in the internal control system operating in relation to these systems. Although a number of reports were issued during the year where less than substantial assurance on the reliability of internal controls could be given, it is important to stress that the issues raised in respect of these audits have since been addressed.

It should be noted that this list comprises planned audits only – it does not include investigations that arose during the year.

Issues particularly relevant to the Annual Governance Statement

Issues particularly relevant to the Annual Governance Statement (AGS) have been identified from the process involved in its production. This includes compilation of the Service Assurance Assessments by services and the review of the draft AGS by the Senior Management Team and by the Leader of the Council and the chairs of the Scrutiny and Standards Committees. Some of these issues had been highlighted by Internal Audit during the year.

Comparison of the work undertaken with the work that was planned and summary of the performance of the internal audit function against its performance measures and targets

This is set out as Appendix 1B.

Compliance with the Public Sector Internal Audit Standards

The Public Sector Internal Audit Standards states that "*Chief audit executives are expected to report conformance on the PSIAS in their annual report.*"

A review by the Chartered Institute of Public Finance and Accountancy (CIPFA), undertaken recently, has highlighted non-compliance with some elements of the Public Sector Internal Audit Standards (PSIAS). An action plan has been produced to address those areas of non-compliance and this is being reported to Finance & Audit Scrutiny Committee. The Committee will be advised further once all the actions have been addressed.

The Public Sector Internal Audit Standards requires that "*The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.*"

The Audit & Risk Manager is able to confirm that Internal Audit is organisationally independent.

The Public Sector Internal Audit Standards states that "To demonstrate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance."

An external assessment was undertaken during April 2016. The results of that are to be communicated to Finance & Audit Scrutiny Committee at its meeting on 1 June 2016.

Communication of the results of the internal audit quality assurance & improvement programme

The Public Sector Internal Audit Standards states that "The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report."

The Internal Audit quality assurance programme includes reviews of audit files by the Audit and Risk Manager before issue of final reports and external audit reviews of Internal Audit's work. It also includes monitoring by the Section 151 Officer and ongoing scrutiny of its work by Finance & Audit Scrutiny Committee.

The Internal Audit quality assurance programme also comprises completion by auditees, post audit, of questionnaires for audits. Appendix 1C sets out the questionnaire that is used.

The results of the Internal Audit quality assurance programme are used to improve the service provided by Internal Audit.

In terms of the post audit questionnaires the modal overall score from auditees for the year was 5 (the highest score) indicating very broad satisfaction with the audits undertaken. No audits were assessed at less than 4. This is in line with previous years' results.

An improvement plan has been produced to address the areas of non-compliance highlighted in the review of the Internal Audit Service undertaken by CIPFA. Although this forms part of a separate report to Finance & Audit Scrutiny Committee, for completeness the action plan is also attached as Appendix 1D to this report.

Summary of Internal Audit Work Undertaken 2015/16¹

| Assignment | Client Service Area | Level of Assurance |
|--|-------------------------------|--------------------|
| Performance Management | CMT | Substantial |
| Collection of Council Tax | Finance | Substantial |
| Payment of Creditors | Finance | Substantial |
| Sports Development | Cultural Services | Substantial |
| Building Cleaning Services | Housing & Property Services | Moderate |
| Housing Investment / Maintenance Programmes | Housing & Property Services | Substantial |
| Sundry Debtors | Finance | Substantial |
| Insurances | Finance | Substantial |
| Private Sector Housing Grants | Housing & Property Services | Substantial |
| Estate Management | Housing & Property Services | Substantial |
| Highways Functions | Housing & Property Services | Substantial |
| Customer Access Facilities | Neighbourhood Services | Moderate |
| Administration of Housing Benefit & Council Tax Reduction | Finance | Substantial |
| Data Protection | Chief Executive's Office | Moderate |
| Funding of Voluntary Organisations | Chief Executive's Office | Substantial |
| Royal Pump Rooms (including Art Gallery) | Cultural Services | Substantial |
| Outdoor Recreation Facilities | Cultural Services | Moderate |
| St Nicholas Park Leisure Centre | Cultural Services | Substantial |
| Castle Farm Recreation Centre & Abbey Fields Swimming Pool | Cultural Services | Moderate |
| Local Elections | Chief Executive's Office | Moderate |
| Building Control | Development Services | Substantial |
| Local Land Charges | Development Services | Substantial |
| Warwick Plant Maintenance (Procurement) | Housing & Property Services | Moderate |
| ICT Strategies and Policies | ICT | Substantial |
| Housing Stock Asset Management | Housing & Property Services | Substantial |
| Payroll and Staff Expenses | Chief Executive's Office | Substantial |
| Business Applications: Civica OPENRevenues | Finance | Substantial |
| Business Applications: APP Civica | Health & Community Protection | Substantial |
| Data Security (Follow-up) | Chief Executive's Office | Substantial |
| Public Services Network | ICT | Substantial |
| Employee Absence Management | Chief Executive's Office | Substantial |

¹ Planned and additional audits only.

| Assignment | Client Service Area | Level of Assurance |
|---|-------------------------------|--------------------|
| Royal Pump Rooms (including Art Gallery) | Cultural Services | Substantial |
| Building Control | Development Services | Substantial |
| Section 106 Agreements | Development Services | Substantial |
| Health & Safety Enforcement in the District | Health & Community Protection | Substantial |
| Leaseholder Service Charges | Housing & Property Services | Substantial |
| Car Parking | Neighbourhood Services | Substantial |

Key to Level of Assurance:

| Level of Assurance | Definition |
|-----------------------|---|
| Substantial Assurance | There is a sound system of control in place and compliance with the key controls. |
| Moderate Assurance | Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls. |
| Limited Assurance | The system of control is generally weak and there is non-compliance with the controls that do exist. |

Overall Summary of Performance 2014/15

| Performance Indicator | In-house Team | External Contractors | Overall for Service |
|---|---------------|----------------------|---------------------|
| Number of planned audits assigned | 27 | 9 | 36 |
| Number of planned audits completed | 27 | 9 | 36 |
| % assigned audits completed | 100.0% | 100.0% | 100.0% |
| Number of audits completed within time allocation | 10 | N/A | 10 |
| % audits completed within time allocation | 28.6 | N/A | 28.6 |
| Number of days overspent (-) / underspent (+) on completed audits to date | -8.5 | N/A | -8.5 |
| % of days overspent (-) / underspent (+) on completed audits to date | -3.3% | N/A | -3.3% |
| Number of audit days – planned | 258.9 | N/A | 258.9 |
| Number of audit days – actual | 264.8 | N/A | 264.8 |
| Productive time as % of available time – target | 74.1% | N/A | 74.1% |
| Productive time as % of available time – actual | 72.2% | N/A | 72.2% |
| Number of audit recommendations issued | 99 | 20 | 119 |
| Number of audit recommendations agreed | 94 | 18 | 112 |
| % audit recommendations agreed | 94.9 | 90.0 | 94.1 |
| Number of High Priority audit recommendations issued | 0 | 0 | 0 |
| Number of High Priority audit recommendations implemented | N/A | N/A | N/A |
| % High Priority audit recommendations implemented | N/A | N/A | N/A |

Post Audit Questionnaire

Audit:

Date of report:

Auditor:

Manager:

In order to help us improve our service we would be grateful if you would spend a few moments answering the questions below.

| Question | Yes | No | Comments (if applicable) |
|---|-----|----|--------------------------|
| Pre-audit consultation | | | |
| Were you given adequate notification of the audit? | | | |
| Were the scope and objectives of the audit discussed with you? | | | |
| Was the audit process explained to you adequately? | | | |
| The audit | | | |
| Was the audit work undertaken at an agreed and convenient time? | | | |
| Was the audit conducted in a proficient manner? | | | |
| Were the appropriate staff interviewed for the audit areas covered? | | | |
| Were interviews conducted in a professional manner? | | | |
| Were the findings discussed with the right staff? | | | |
| Was the audit completed within a reasonable timescale? | | | |
| Audit reporting | | | |
| Was the draft report produced within a reasonable timescale? | | | |
| Were you given the opportunity to | | | |

| Question | Yes | No | Comments (if applicable) |
|---|-----|----|--------------------------|
| discuss the report with the auditor? | | | |
| If so, did you find the discussion useful? | | | |
| Was the discussion conducted in a professional manner? | | | |
| Were your views and comments presented adequately in the final report? | | | |
| Were the recommendations in the report practical and realistic? | | | |
| Was the report produced to a professional standard? | | | |
| Did the audit reveal any unknown weakness in the system? | | | |
| Do you feel that the audit was worthwhile and has added value to your work? | | | |

On a scale of 1 to 5, 1 being "very dissatisfied" and 5 representing "very satisfied", please score your level of satisfaction with the audit in overall terms:

If you have any other comments that you wish to make about the audit please record them below:

Manager: _____

Date: _____

Please return the form to Richard Barr, Audit and Risk Manager, Finance.

Action Plan to Address Areas of Non-compliance with Public Sector Internal Audit Standards

Table extracted directly from report

| No | Recommendation | Response | Action date |
|-----|--|--|------------------------|
| R1 | Include a definition of both assurance and consulting activity in the Charter | Agreed. Charter will be updated. | May 2016. |
| R2 | Define 'senior management' in the Charter | Agreed. Charter will be updated. | May 2016. |
| R3 | Include a declaration of independence of the internal audit activity in the annual report | Agreed. Annual report will include declaration. | June 2016. |
| R4 | Maintain annual (at least) declarations of interests, including nil returns, for all audit staff | Agreed. Declaration of interests will be maintained. | Immediate and ongoing. |
| R5 | Expand the terms of reference to include fraud, error, value for money, strategic organisational objectives* | Agreed. Terms of reference will be expanded | May 2016. |
| R6 | Ensure that all members of the audit team are kept up to date on emerging audit issues | Agreed. Team will receive necessary training. | Ongoing. |
| R7 | Remove the reference to compliance with PSIAS until the recommendations from this review have been implemented | Agreed. Compliance reference will be removed. | May 2016. |
| R8 | Put in place arrangements to highlight internal audit plans and activity to SMT | Agreed. Quarterly activity reports will be presented to SMT. | June 2016 and ongoing. |
| R9 | Include higher-level ethics work in the audit universe and plan | Agreed. Audit Plan will be updated. | From 2017/18. |
| R10 | Formalise the approach to producing briefs and discussing the scope of the audit with auditees so that the discussion comes first. | Agreed. Revised protocol will be adopted and Audit Manual updated accordingly. | From 2016/17. |
| R11 | Copy in senior management when sending out briefs. | Agreed. Revised protocol will be adopted and Audit Manual updated accordingly. | From 2016/17. |
| R12 | Resolve the matter about what personal data can and cannot be retained and note in the manual | Agreed. Staff will be reminded and the Internal Audit Manual will be updated. | May 2016. |
| R13 | Formalise supervision, perhaps through a review sheet to show points raised and cleared or no points arising which is retained on file | Agreed. Review sheet will be introduced to evidence reviews. | May 2016. |
| R14 | Take a more rigorous approach to audit follow ups, obtaining evidence for high priority recommendations as a minimum | Agreed. Evidence of implementation will be obtained for high priority recommendations. | June 2016. |
| R15 | Include the Nolan principles in the audit manual section on ethics | Agreed. Ethics section in Manual will be updated. | May 2016. |

* Potential additions to a revised terms of reference include:

- Objectives of the area being reviewed
- Links to the council's strategic objectives
- Risk of fraud, error and non-compliance

- Potential for the audit to add value, including in relation to value for money
- Any governance or ethics considerations