

**Head of Internal Audit's Annual Report and Presentation of
Audit Opinion 2016/17**

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 state 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.

Inevitably, there were some instances of non-compliance that were identified by Internal Audit, as detailed in reports that were 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 major.

There are no qualifications to that opinion, although clearly it can only be based on the audits undertaken during that year; it has to be acknowledged that not everything is subject to an audit within a 12-month time frame. 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 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 2016/17 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 in quarterly reports 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 state that:

“Chief audit executives are expected to report conformance on the PSIAS in their annual report.”

*“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.”*

A review by the Chartered Institute of Public Finance and Accountancy (CIPFA), undertaken at the start of the year, highlighted non-compliance with some

elements of the Public Sector Internal Audit Standards (PSIAS). An action plan was produced to address those areas of non-compliance and this was reported to Finance & Audit Scrutiny Committee on 1 June 2016, together with the full results of the review. The latest position in respect of the action plan is set out as Appendix 1D.

Separately, 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.

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 score from auditees for the year was 5 (the highest score) indicating very broad satisfaction with the audits undertaken. No assignments were assessed at less than 3.

An improvement plan was produced to address the areas of non-compliance highlighted in the review of the Internal Audit Service undertaken by CIPFA.

Summary of Internal Audit Work Undertaken 2016/17¹

Assignment	Client Service Area	Level of Assurance
Human Resources Management	Chief Executive's Office	Substantial
Corporate Property & Portfolio Management	Housing & Property Services	Substantial
Planning Policy	Development Services	Substantial
Corporate Procurement	Finance	Substantial
Medium Term Financial Strategy	Finance	Substantial
Financial Planning and Budgetary Control	Finance	Substantial
Collection of Council Tax	Finance	Substantial
Collection of National Non-Domestic Rates	Finance	Substantial
Administration of Housing Benefit & Council Tax Reduction	Finance	Substantial
Main Accounting System	Finance	Substantial
Treasury Management	Finance	Substantial
Housing Repairs and Maintenance	Housing & Property Services	Substantial
ICT Business Continuity / Disaster Recovery	ICT	Substantial
ICT Change Management and Testing	ICT	Substantial
Business Applications – MIS Housing and Corporate Property	Housing & Property Services	Substantial
Business Applications – TOTAL Financial Management	Finance	Substantial
Business Applications – IDOX Planning, Building Control & Land Charges	Development Services	Substantial
Patching and Firewall Updates	ICT	Substantial
Equality and Diversity	Chief Executive's Office	Substantial
Corporate Health and Safety	Health & Community Protection	Substantial
Safeguarding Vulnerable Adults	Chief Executive's Office	Substantial
Recruitment and Selection, Terms and Conditions	Chief Executive's Office	Substantial
Golf Course	Cultural Services	Substantial
Catering Concessions	Cultural Services	Substantial

¹ Planned and additional audits only.

Assignment	Client Service Area	Level of Assurance
Building Control	Development Services	Moderate
Conservation and Design	Development Services	Substantial
VAT Accounting	Finance	Substantial
Food Safety	Health & Community Protection	Substantial
Crime and Disorder	Health & Community Protection	Substantial
Affordable Housing Development Programme	Housing & Property Services	Substantial
Lettings and Void Control	Housing & Property Services	Substantial
Right to Buy	Housing & Property Services	Substantial
Asbestos Management	Housing & Property Services	Moderate
Open Spaces	Neighbourhood Services	Substantial
Bereavement Services	Neighbourhood Services	Substantial
Grounds Maintenance	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 many of the controls that do exist.

Overall Summary of Performance 2016/17

Performance Indicator	In-house Team	External Contractors	Overall for Service
Number of planned audits assigned	28	9	37
Number of planned audits completed	28	9	37
% assigned audits completed	100.0%	100.0%	100.0%
Number of audits completed within time allocation	12	N/A	12
% audits completed within time allocation	42.9	N/A	42.9
Number of days overspent (-) / underspent (+) on completed audits to date	-1.2	N/A	-1.2
% of days overspent (-) / underspent (+) on completed audits to date	-0.4%	N/A	-0.4%
Number of audit days – planned	267.0	N/A	267.0
Number of audit days – actual	269.5	N/A	269.5
Productive time as % of available time – target	76.2%	N/A	76.2%
Productive time as % of available time – actual	72.7%	N/A	72.7%
Number of audit recommendations issued	71	20	91
Number of audit recommendations agreed	66	18	84
% audit recommendations agreed	93.0	90.0	92.3
Number of High Priority audit recommendations issued	1	0	1
Number of High Priority audit recommendations implemented	1	0	1
% High Priority audit recommendations implemented	100	N/A	100

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	Current Position
R1	Include a definition of both assurance and consulting activity in the Charter	Agreed. Charter will be updated.	May 2016.	Completed.
R2	Define 'senior management' in the Charter	Agreed. Charter will be updated.	May 2016.	Completed.
R3	Include a declaration of independence of the internal audit activity in the annual report	Agreed. Annual report will include declaration.	June 2016.	Completed.
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.	Being undertaken.
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.	Completed.
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.	Being undertaken.
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.	Recommendation no longer applicable as now fully-compliant with PSIAS.
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.	Being undertaken.
R9	Include higher-level ethics work in the audit universe and plan	Agreed. Audit Plan will be updated.	From 2017/18.	Being undertaken.
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.	Being undertaken.
R11	Copy in senior management when sending out briefs.	Agreed. Revised protocol will be adopted and Audit Manual updated accordingly.	From 2016/17.	Being undertaken.

No	Recommendation	Response	Action date	Current Position
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.	Completed.
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.	Being undertaken.
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.	Being undertaken.
R15	Include the Nolan principles in the audit manual section on ethics	Agreed. Ethics section in Manual will be updated.	May 2016.	Completed.

* 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