



Title	Internal Audit Annual Report 2014/15
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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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No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	Standards Committee – 9 September 2014 Finance & Audit Scrutiny Committee – 10 June 2014
Background Papers	Accounts and Audit (England) Regulations 2011 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	27 May 2015	Chris Elliott
Section 151 Officer	27 May 2015	Mike Snow
Monitoring Officer	27 May 2015	Andrew Jones
Finance	27 May 2015	As Section 151 Officer
Leader of the Council	27 May 2015	Councillor Mobbs

Portfolio Holder	27 May 2015	Councillor Whiting
Consultation and Community Engagement		
None other than 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 2014/15 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 2015 as part of its consideration and approval of the Annual Governance Statement 2014/15.

3 REASON FOR THE RECOMMENDATIONS

- 3.1 To comply with the Public Sector Internal Audit Standards that provide the "proper practices" referred to in Regulation 4 of The Accounts and Audit (England) Regulations 2011 in respect of production of an annual governance statement. The 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.

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 Regulation 4 of The Accounts and Audit (England) Regulations 2011 states (overleaf):

Responsibility for financial management

4.—(1) The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.

(2) The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control.

(3) The findings of the review referred to in paragraph (2) must be considered—

(a) in the case of a larger relevant body, by the members of the body meeting as a whole or by a committee, and

(b) in the case of a smaller relevant body, by the members of the body meeting as a whole, and

following the review, the body or committee must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.

(4) The relevant body must ensure that the statement referred to in paragraph (3) accompanies—

(a) any statement of accounts it is obliged to prepare in accordance with regulation 7, or

(b) any accounting statement it is obliged to prepare in accordance with regulation 12.

8.2 The Public Sector Internal Audit Standards form part of the "proper practices" referred to in Regulation 4 of the Accounts and Audit Regulations 2011, set out above.

8.3 The 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 2014/15**

Introduction

This report is produced to satisfy proper practices under Regulation 4 of The Accounts and Audit (England) Regulations 2011 in respect of production of an annual governance statement.

In compliance with those Standards the purpose of this report is to:

- Present a summary of the internal work undertaken during 2014/15 from which the opinion on the internal control environment is derived
- Provide an opinion on the overall adequacy and effectiveness of the Council's control environment including any qualifications to that opinion
- Draw attention to any issues that need to be considered for inclusion in the Annual Governance Statement
- Compare work actually undertaken with that which was planned and summarise performance
- Comment on compliance with the Public Sector Internal Audit Standards
- Communicate the results of the quality assurance and improvement programme

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

Based on internal audit assignments undertaken as part of the Audit Plan, it must be concluded that the Council has an effective internal 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 during the year 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.

Summary of the internal work undertaken during 2014/15 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. However, each audit report 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 only limited 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

A self-review has confirmed that the Public Sector Internal Audit Standards are complied with. In compliance with the Standards, a comprehensive, external review will be undertaken within the next three years to verify compliance.

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

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

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 an annual review of the effectiveness of Internal Audit by the Responsible Financial Officer as required by Regulation 6 of the Accounts and Audit Regulations 2011.

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.

SUMMARY OF INTERNAL AUDIT WORK UNDERTAKEN 2014/15¹

Assignment	Client Service Area	Assurance
Corporate Governance	CMT	Substantial
Emergency Planning	Health & Community Protection	Substantial
Business Continuity Management	Health & Community Protection	Substantial
Partnership Working	CMT	Substantial
Corporate Procurement	Finance	Moderate
Collection of Council Tax	Finance	Substantial
Collection of National Non-domestic Rates	Finance	Substantial
Administration of Housing Benefit & Council Tax Reduction	Finance	Substantial
Payroll and Staff Expenses	Chief Executive's Office	Moderate
Treasury Management	Finance	Substantial
Infrastructure Security and Resilience	ICT	Substantial
Software Licensing	ICT	Substantial
Data Protection	Chief Executive's Office	Substantial
Payment Card Industry – Data Security Standards	ICT	Substantial
ICT Risk Management	ICT	Substantial
Committee Services	Chief Executive's Office	Substantial
Shared Legal Services	CMT	Moderate
Recruitment and Selection, Terms and Conditions	Chief Executive's Office	Substantial
Communications	Chief Executive's Office	Substantial
Banking Arrangements	Finance	Substantial
Homelessness and Housing Advice	Housing & Property Services	Substantial
Lettings and Void Control	Housing & Property Services	Substantial
Corporate Properties Repair and Maintenance	Housing & Property Services	Moderate
Royal Spa Centre	Cultural Services	Substantial
Community Leisure Facilities	Cultural Services	Substantial
Newbold Comyn Leisure Centre	Cultural Services	Moderate
Economic Development	Development Services	Substantial
Development Management	Development Services	Substantial
Section 106 Agreements	Development Services	Moderate

¹ Planned audits only – investigations not included.

Assignment	Client Service Area	Assurance
Deeds Store	Chief Executive's Office	Substantial
Licensing Services	Health & Community Protection	Substantial
Flood Risk Management	Health & Community Protection	Substantial
Environmental Protection Functions	Health & Community Protection	Substantial
Refuse Collection and Recycling	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, there are weaknesses in the system that leaves some risks not addressed together with non-compliance with some of the controls, including key ones.
Limited Assurance	The system of control is 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	28	6	34
Number of planned audits completed	28	6	34
% assigned audits completed	100.0%	100.0%	100.0%
Number of audits completed within time allocation	13	N/A	13
% audits completed within time allocation	46.4	N/A	46.4%
Number of days overspent (-) / underspent (+) on completed audits to date	-10.4	N/A	-10.4
% of days overspent (-) / underspent (+) on completed audits to date	-3.6%	N/A	-3.6%
Number of audit days – planned	288.0	N/A	288.0
Number of audit days – actual	299.2	N/A	299.2
Productive time as % of available time – target	75.0%	N/A	75.0%
Productive time as % of available time – actual	73.6%	N/A	73.6%
Number of audit recommendations issued	85	15	100
Number of audit recommendations agreed	84	15	99
% audit recommendations agreed	98.8	100.0	99.0
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	100.0	N/A	100.0

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.

	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?			

	Yes	No	Comments (if applicable)
Were you given the opportunity to 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.