

# INTERNAL AUDIT

## Forest Heath District Council Annual Internal Audit Report 2013/14 and Internal Audit Plan 2014/15

### 1. Background

- 1.1 The statutory basis for Internal Audit in local government is provided by the Accounts and Audit Regulations 2011 which requires a local authority to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'. These 'proper practices' are those now contained within the new Public Sector Internal Audit Standards which came into effect from 1 April 2013 (having replaced the CIPFA Code of Practice for Internal Audit in Local Government).
- 1.2 These new Public Sector Internal Audit Standards are mandatory and underpin the internal audit arrangements within the council. The Internal Audit Manager considers that we already substantially comply with these Standards and will report on conformance with these Standards in future annual reports.
- 1.3 Similar to the CIPFA Code of Practice, the new Standards require the Internal Audit Manager to report periodically to senior management and the Performance and Audit Scrutiny Committee on Internal Audit's purpose, authority and responsibility and performance relative to its Audit Plan. Also, the Internal Audit Manager continues to establish a risk-based plan to determine the priorities of the internal audit activity consistent with the council's priorities.

### 2. Reporting to Senior Management and the Performance and Audit Scrutiny Committee

#### 2.1 Organisational Independence

- 2.1.1 The new Standards require Internal Audit to confirm to the Performance and Audit Scrutiny Committee, at least annually, the organisational independence of the audit activity. Internal Audit effectively achieves this through the Performance and Audit Scrutiny Committee's involvement in the following:
  - approval of the risk-based internal audit plan;

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- receiving communications from the Internal Audit Manager on the internal audit activity relative to the audit plan and other matters; and
- approval of the internal audit charter as and when required, but not necessarily annually.

### 2.2 Performance against the 2013/14 Revised Audit Plan

2.2.1 During 2013/14, all audits included within the audit plan were completed. In total, 26 audit reports were issued, an overview of the conclusions and main findings of each audit, together with a brief summary of progress made, is provided at **Appendix E**.

2.2.2 In addition to undertaking audit reviews Internal Audit has had significant involvement in corporate work including advice and assistance. During 2013/14 this aspect of the section's work has included:

- Leading the corporate governance review as contained with the Annual Governance Statement (AGS) and its associated documents;
- Membership and contribution to the Joint Information Governance Working Group - this is an officer group which provides oversight of the proper and secure handling of information by both councils. Internal Audit has undertaken a 'building security' check on behalf of the group, with further ongoing checks taking place on a quarterly basis;
- Implementation of the new Financial Management System (FMS) – Internal Audit involvement in this project has consisted of performing a project assurance role in the early stages of the project, review of project documentation, and data migration testing. To date our testing of data migration to the FMS has been undertaken with no significant issues to report;
- Tender for the Provision of Banking Services – Internal Audit have assisted and supported Finance, Legal and Procurement colleagues in this procurement exercise to determine a new banking provider from 1<sup>st</sup> April 2014. This included drafting the Tender Evaluation Plan, supporting the tender evaluation process, arranging meetings for the project team, and drafting project updates and presenting these at Programme Board;
- Contract Procedures Rules Review - the Contract Procedure Rules Working Group includes a representative from Internal Audit. New Contract Procedures have been drafted; in addition, the group are working to produce a streamlined process across West Suffolk;
- Credit Cards– Internal Audit have been involved in the arrangements to align the acceptance and charges for credit cards across West Suffolk;
- Attendance at Joint Leadership Team meetings to brief senior managers in relation to the outcomes of work undertaken by the section;
- Responding to approximately 60 requests for financial vetting or other related financial advice including assessments of organisations' financial suitability to undertake specified contracts;
- Contributing to e-learning modules for Payment Card Industry Data Security Standards and Anti Money Laundering; and

- Continuing to provide advice to service areas on internal controls.

### 2.3 Annual Audit Opinion 2013/14

- 2.3.1 Internal Audit, having taken into account other internal and external assurance processes of the council, has an obligation to provide independent, objective assurance from the work undertaken in respect of the effectiveness of the risk management, control and governance processes operating within the council.
- 2.3.2 The system of control should help the council to manage and control the risks which could affect the achievement of the council's objectives rather than eliminate them completely. Internal Audit and the other assurance processes can therefore only provide within the Annual Governance Statement reasonable and not absolute assurance of adequacy and effectiveness.
- 2.3.3 Based upon an independent and objective assessment of the framework of risk management, control and governance processes, Internal Audit can provide reasonable assurance that the framework has operated adequately and effectively during the year. Our work has, however, identified a number of areas where existing arrangements could usefully be improved, and details of these are provided in **Appendix E**.

### 2.4 Review of the Effectiveness of Internal Audit and the Quality Assurance and Improvement Programme

- 2.4.1 The Accounts and Audit Regulations 2011 requires the council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Further it must at least once in each year, conduct a review of the effectiveness of its internal audit and have the findings considered by a committee. For 2013/14 this review of effectiveness has been achieved through the **quality assurance and improvement programme** and an **assessment of the workings of the Performance and Audit Scrutiny Committee against good practice** – further details are included below.

#### Quality Assurance and Improvement Programme

- 2.4.2 Currently, the quality assurance and improvement programme mainly consists of the following elements:
- annual internal self-assessments are undertaken by completing checklists which measure the extent to which Internal Audit is complying with current applicable internal audit standards (these are now the Public Sector Internal Audit Standards as explained in para 1.1);
  - checklists completed in conjunction with the Chair and Vice Chair of the Performance and Audit Scrutiny Committee, covering that committee's view of Internal Audit's role within the authority and Internal Audit's performance;
  - a quality review process is undertaken for each individual audit;

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- customer satisfaction questionnaires are issued with audit reports; and
- performance against the Audit Plan is measured via two local performance indicators (see paragraph 2.4.7).

### *Annual Internal Self-Assessment*

2.4.3 An initial self-assessment against the new Standards which came into effect on 1 April 2013 has been completed to assess compliance with them. There are eleven standards in all, four attribute standards (setting the scene in terms of internal audit's role within the council) and seven performance standards (measuring day-to-day operational practice). The initial self-assessment indicated that, as expected, Internal Audit's current practices are generally in compliance with the Standards. However, in common with other councils, further work is needed to more fully understand some areas of application as well as considering the extent to which value would be added to our work through achieving further compliance, bearing in mind that it will always be extremely difficult for small Internal Audit sections (such as West Suffolk) to fully comply with these Standards. A number of areas have been identified for further consideration, and these include:

- an external assessment of Internal Audit to be undertaken at least every 5 years;
- Quality Assurance and Improvement Programme (QAIP) to be further developed; and
- existing working procedures / practices to be further updated to capture the requirements of the new standards.

### *Performance and Audit Scrutiny Committee's Review of Internal Audit's Role in the Authority and Internal Audit Performance*

2.4.4 Checklists have been completed in conjunction with the Chair and Vice Chair of the Performance and Audit Scrutiny Committee and the Head of Resources and Performance to assess compliance with good practice. These checklists are included at **Appendix B** and demonstrate a high degree of compliance with good practice.

### *Quality Review Process*

2.4.5 For each audit undertaken, the Internal Audit Manager ensures that:

- all Internal Audit working papers are reviewed to ensure that audit work has been performed in accordance with the agreed objectives for that audit, and sensible conclusions have been arrived at and are based on evidence clearly recorded within the audit working papers;
- the draft audit report issued to management at the end of each audit is accurate, clear, concise, includes all relevant findings, conclusions, and a supportable audit opinion, as well as recommendations to management which are achievable, make sense, and mitigate risks / add value to the service; and
- the quality review process is robust and properly documented to ensure external audit (currently Ernst & Young) are able to place maximum reliance on Internal Audit's work.

### *Customer Satisfaction Questionnaires*

- 2.4.6 At the conclusion of each full audit undertaken the relevant service (e.g. Finance, if it is a financial system being audited) is asked to complete a customer satisfaction questionnaire and give their view of the quality and usefulness of the audit review undertaken. From an analysis of the returned customer satisfaction questionnaires, it is pleasing to report that satisfaction levels remain at a high level with all responses falling within the 'very good' category. It should also be noted that the section regularly receives informal feedback regarding work carried out which is generally very favourable.

### *Local Performance Indicators*

- 2.4.7 As mentioned above in paragraph 2.4.2 internal audit performance against the Audit Plan is measured throughout the year, via two local performance indicators.

- (1) The percentage of the planned core financial and information systems audits completed during the year – these being the main audits upon which assurances regarding the Annual Governance Statement are based and upon which the external auditors seek to place reliance for their work on the annual statement of accounts.

100% of planned core systems audits were completed for the year 2013/14.

- (2) External audit opinion on internal audit work – based on the extent to which external audit are able to place reliance on the work of internal audit.

In respect of external audit's opinion on internal audit work this is to be confirmed but expectation based on past experience is that they will be able to place reliance on our work where they have planned to do so.

### *Assessment of the workings of the Performance and Audit Scrutiny Committee against good practice*

- 2.4.8 When looking at the effectiveness of internal audit, this incorporates more than just the Internal Audit section: the Performance and Audit Scrutiny Committee is also a key element of this process.

A checklist has been completed reviewing the Performance and Audit Scrutiny Committee against an Audit Committee self-assessment of good practice. The Internal Audit Manager has concluded that the function and operation of the Performance and Audit Committee essentially satisfies the key requirements of this good practice document (Toolkit for Local Authority Audit Committees). See attached completed checklist at **Appendix B**.

### Conclusion on Review of Effectiveness of Internal Audit

- 2.4.9 The completion of checklists referred to above provides evidence to the Performance and Audit Scrutiny Committee that internal audit is effective and the opinion of the Internal Audit Manager in this Annual Report can be relied upon as a key source of evidence in the production of the Annual Governance Statement.

### **3. Internal Audit Plan 2014/15**

- 3.1 In accordance with the new Public Sector Internal Audit Standards an annual risk-based Audit Plan has been established to determine the priorities of the internal audit activity, consistent with the council's goals, for approval by the Performance and Audit Scrutiny Committee.
- 3.2 The proposed 2014/15 Audit Plan is provided at **Appendix C** and has been compiled in consultation with stakeholders, including the Chair and Vice Chair of the Performance and Audit Scrutiny Committee, the Head of Resources and Performance (as the councils' Section 151 Officer), Joint Leadership Team and the external auditors.
- 3.3 The Audit Plan is clearly influenced by the resources made available by the council for Internal Audit. For this reason a balance needs to be achieved in terms of keeping costs at a realistic level, whilst ensuring that the level of coverage is appropriate, sufficient and effectively deployed to achieve the Audit Plan and that the external auditors (Ernst and Young) are satisfied that they can place reliance on the work of Internal Audit for the purpose of auditing both councils' annual financial statements.
- 3.4 The Audit Plan provides for the annual review of all the main financial systems together with corporate governance review and support.
- 3.5 Whilst Internal Audit must be in a position to give an opinion/assurance that covers the effectiveness of risk management, control and governance processes in relation to both existing and new systems / developments it is essential that such work is undertaken in a flexible and supportive manner, in conjunction with senior management, to ensure that both risks and opportunities are properly considered. For this reason, Internal Audit includes time in the Audit Plan to support and work with management / staff by providing advice and guidance on controls to ensure an adequate control environment is in place to mitigate significant risks. In addition, time is included in the Audit Plan for continued assistance with corporate projects / pieces of work relating to major developments / changes.
- 3.6 In times of significant transformation, organisations must manage change effectively and ensure that core controls remain in place. Both West Suffolk councils are facing significant financial pressures as a result of the national reduction in public sector spending, whilst engaging in a number of major projects, developments and restructurings, including the corporate shared services programme, procurement of a single financial management system and the customer access project which are all looking at changes in the way services are delivered. It is important for Internal Audit to add value to both

councils through providing objective and relevant assurance, and contributing to the effectiveness and efficiency of risk management, control and governance processes. The proposed 2014/15 Audit Plan seeks to ensure that this is the case, by retaining enough flexibility to enable Internal Audit to react to changing risks and priorities.

#### **4. Managing the Risk of Fraud, Theft and Corruption**

- 4.1 The council has a sizeable workforce, significant levels of income and expenditure, and provides a variety of services. Despite occasional incidents, probity is judged to remain at a high level.
- 4.2 Managing the risk of theft, fraud and corruption is considered in detail at **Appendix D.**