

INTERNAL AUDIT

Annual Internal Audit Report 2014/15 and Internal Audit Plan 2015/16

1. Background

- 1.1 The statutory basis for Internal Audit in local government is provided by the Accounts and Audit Regulations 2015 which requires a local authority to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance '.
- 1.2 The public sector internal auditing standards (the Standards) require the Service Manager (Internal Audit) 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 Service Manager (Internal Audit) continues to establish a risk-based plan to determine the priorities of the internal audit activity consistent with both councils' priorities.

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

2.1 Organisational Independence

- 2.1.1 The 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;
 - receiving communications from the Service Manager (Internal Audit) 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.
- 2.1.2 As further demonstration of organisational independence, the Service Manager (Internal Audit) can confirm that there has been no inappropriate scope or resource limitations placed upon him

2.2 Performance against the 2014/15 Audit Plan

Fundamental Systems Audits

2.2.1 During 2014/15, all of the fundamental systems audits included within the audit plan were completed. In total, 15 audit reports were issued, comprising the fundamental systems audits plus a number of a number of follow up audits which reviewed progress made against previously agreed actions. An overview of the conclusions and main findings of each audit, together with a brief summary of progress made, is provided at **Appendix E**.

Corporate Consultancy Work

2.2.2 In addition to continuing to perform the usual statutory fundamental systems audits, and other audit responsibilities, Internal Audit has continued to assist with corporate or consultancy style work. This enables early audit input to activities which can often help to prevent or bring early resolution to internal control issues, and also bring audit skills and increase available resource, on significant corporate projects. Work we have been, or are currently, engaged in includes:

- one team member is currently on the Business Process Re-engineering team which is reviewing and re-designing service processes. A number of processes are being looked at across West Suffolk with the staff member specifically involved in reviewing processes related to Freedom of Information and Locality Budgets. Work has also been carried out to review admin activities within HR, Legal and Democratic Services with a view to combining skills, improving processes, reducing waste and increasing efficiency;
- examining processes and controls in the Customer Services area;
- reviewing, and advising on, debt management and recovery processes across West Suffolk;
- producing a West Suffolk Fees and Charges Policy and reviewing information related to this;
- considering the processes and controls operating around fuel receipts for mileage claims, and other related areas;
- research and groundwork on a number of financially related external initiatives on behalf of the Head of Resources and Performance to consider whether these may be of any interest to the councils;
- assisting in reviewing financial aspects of renewable energy investment options; and
- participation in the Housing Investment Project Group – a group of officers looking at investment options, for consideration by Cabinet, to support and increase the delivery of housing across West Suffolk.

Fee Earning Work

2.2.3 Internal Audit has continued to undertake fee earning work within the year, amounting to approximately £27k of income. This consisted of the following:

- work on behalf of East Cambridgeshire District Council as part of the agreement in place whereby West Suffolk provides that council with internal audit resources to assist in completion of their annual audit plan;
- audit of the council tax, non-domestic rates, and housing and council tax benefits systems on behalf of East Cambridgeshire District Council (this is in addition to the work referred to above) and Breckland Council;
- fee earning grant certification work for Suffolk County Council to provide assurance to the Department for Business Innovation & Skills that the conditions of the specific grant determination (Business Growth Programme) have been complied with;
- financial vetting work on behalf of the Home of Horse Racing project regarding the National Horse Racing Museum fit-out works;

Other Audit Work

2.2.4 Other audit work which the section has undertaken during the period included membership and contribution to the following groups:

- Joint Governance Group – this officer group leads on the production of the Annual Governance Statement and its associated documents;
- Joint Strategic Risk Management Group – this is a member and officer group which meets on a quarterly basis to review and update the West Suffolk Strategic Risk Register before being presented to the Informal Joint Performance and Audit Scrutiny Committee;
- Information Governance Working Group - this is an officer group which provides oversight of the proper and secure handling of information by both councils; and
- Records Management Working Group – the role of this officer group is to design and implement a record management framework for the West Suffolk councils; and
- Programme Group - a group that brings service managers together to review and monitor all aspects of project development, delivery and management of projects across the West Suffolk Councils.

2.2.5 During 2014/15 Internal Audit has also:

- responded to over 80 requests for financial vetting or other related financial advice including assessments of organisations' financial suitability to undertake specified contracts for the councils. This has included financial vetting advice for the Waste and Street Scene Software System, CCTV Upgrade Project and Brandon Leisure Centre Heating Replacement; and also
- continued to provide advice to service areas on internal controls.

2.3 Annual Audit Opinion 2014/15

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 Quality Assurance and Improvement Programme

2.4.1 The Standards require that internal audit 'must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity'. This quality assurance and improvement programme is designed to check whether Internal Audit complies with the Standards and also assess its efficiency and effectiveness and identify any areas for improvement.

Quality Assurance and Improvement Programme

2.4.2 Currently, the quality assurance and improvement programme 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 the Public Sector Internal Audit Standards;
- checklists completed in conjunction with the Chairs of the Performance and Audit Scrutiny Committees, covering those committees' view of Internal Audit's role within the authority and Internal Audit's performance;

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- a quality review process is undertaken for each individual audit;
- customer satisfaction questionnaires are issued with audit reports for completion by the service area subject to audit; 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 internal self-assessment against the 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 self-assessment has indicated that Internal Audit's current practices generally conform to the Standards. The Service Manager (Internal Audit) considers this to be an acceptable result as it will always be extremely difficult, and not necessarily beneficial, for small internal audit sections (such as West Suffolk) to fully conform to these Standards. A number of areas have been identified for further consideration, and these include:

- revisiting the format of audit reports and audit planning documents to determine whether it would add value to our work to fully comply with Standards in these areas; and
- clearer evidencing of areas where we are conforming with the Standards to demonstrate that this is the case where this can be achieved without additional cost.

Areas identified last year for further consideration and progress made in respect of these are as follows:

- the Standards require an external assessment of Internal Audit to be undertaken at least every 5 years – this remains under consideration but the costs may outweigh the benefits of this;
- Quality Assurance and Improvement Programme (QAIP) to be further developed – this has been reviewed and the QAIP is as set out above and below (paragraph 2.4 refers) ; and
- existing working procedures / practices to be further updated to capture the requirements of the new Standards – working procedures have been updated as appropriate although this needs to be a continuous exercise to ensure that working practices are as efficient as possible and reflect changing customer expectations.

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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 Chairs of the Performance and Audit Scrutiny Committees 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 agreed actions with 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 should they choose to do so.

Customer Satisfaction

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 given the opportunity to complete a customer satisfaction questionnaire and give their view of the quality and usefulness of the audit review undertaken. Services do however generally prefer to give feedback informally during report discussions. Negative feedback is rare and were this to be received the Service Manager (Internal Audit) would discuss this in detail with the relevant service manager with a view to make any necessary improvements for the future.

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, as follows:

- (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 may seek to place reliance for their work on the annual Statement of Accounts.

100% of planned core systems audits were completed for the year 2014/15.

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- (2) External audit utilisation of internal audit work – based on the extent to which external audit are able to utilise internal audit’s work.

The external auditors (Ernst & Young) confirmed in their ‘Audit Results Report – ISA (UK & Ireland) 260’ to Performance and Audit Scrutiny Committee in September 2014 that they had ‘utilised the work of Internal Audit as much as possible’. This means in effect that the external auditors had used the work of Internal Audit to inform their own work and avoid any unnecessary duplication of work by internal and external auditors.

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 in conjunction with the Chairs of the Performance and Audit Scrutiny Committees reviewing these committees against good practice. Based on these completed checklists, the Service Manager (Internal Audit) 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 Committees that internal audit is effective and the opinion of the Service Manager (Internal Audit) 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 2015/16

- 3.1 In accordance with the 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 West Suffolk councils’ priorities, for approval by the Performance and Audit Scrutiny Committees.
- 3.2 The proposed 2015/16 Audit Plan is provided at **Appendix C** and has been produced in consultation with the Head of Resources and Performance (as the councils’ Section 151 Officer), 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 audit coverage is appropriate and sufficient to enable the Service Manager (Internal Audit) to discharge his duty to provide a robust annual audit opinion in support of the West Suffolk Annual Governance Statement.

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- 3.4 The Audit Plan provides for the annual review of all the main financial systems together with work in a number of other areas.
- 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 and different ways of working. It is important for Internal Audit to add value to both councils through providing timely, objective and relevant assurance, and contributing to the effectiveness and efficiency of risk management, control and governance processes. The proposed 2015/16 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 West Suffolk councils have a sizeable workforce, significant levels of income and expenditure, and provide 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.**