

**INTERNAL AUDIT – ANNUAL REPORT 2015 - 16**

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**1.0 EXECUTIVE SUMMARY**

- 1.1 This report is a review of Internal Audit for the period 2015/2016 and provides overall opinion on the level of assurance in respect of effectiveness of financial and management controls.
- 1.2 The annual audit plan for 2015/16 has been delivered in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom ('the Code') and the Public Sector Internal Audit Standards (PSIAS).
- 1.3 The report outlines reporting responsibilities, provides commentary in relation to professional standards and provides an analysis of Internal Audit activity and progress during 2015/2016.
- 1.4 Audit Committee are asked to note the conclusion and content of the report.

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**2.0 INTRODUCTION**

- 2.1 This report provides the opinion that, subject to the matters listed in the Statement of Governance and Internal Control being actioned, substantial assurance can be taken that the systems of governance and internal control are operating effectively.

**3.0 RECOMMENDATIONS**

- 3.1 The Audit Committee notes the content of this report.

**4.0 DETAIL****4.1 FOREWORD**

The annual audit plan for 2015/16 has been delivered in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom ('the Code') and the Public Sector Internal Audit Standards (PSIAS).

**4.2 SERVICE OUTCOME**

Assurance is provided that financial and management controls are operating effectively.

**4.3 TERMS OF REFERENCE**

Internal Audit is responsible for advising all levels of management and the Council (through its Audit Committee), on the Council's systems of internal control. It is a review activity which continuously reinforces line management's responsibility for effective internal controls. Internal Audit supports:

- Management's organisational objectives; and
- The Audit Committee's need for overall assurance on the quality and cost effectiveness of risk management systems and internal controls.

**4.4 REPORTING RESPONSIBILITIES**

The reporting responsibilities of Internal Audit are:

## **Section 95 Officer / Head of Strategic Finance**

Internal Audit reports directly to the Head of Strategic Finance who is also the Section 95 Officer. The Chief Internal Auditor meets with the Head of Strategic Finance to discuss the effectiveness of the system of internal control operated within the Council and Internal Audit performance against plan.

### **Chief Executive**

Internal Audit has a dotted line responsibility to the Chief Executive. The Chief Internal Auditor met regularly with the Chief Executive, covering progress of the annual audit plan, issued reports and areas of concern.

### **Audit Chairman**

Internal Audit has a dotted line responsibility to the Audit Chairman.

### **Audit Committee**

Internal Audit prepares and facilitates reports for the Audit Committee and during 2015/16; the following report areas were presented:

Internal Audit Annual Plan	Internal Audit Reports
Annual Risk Management report	Internal Audit Summary Activity
National Fraud Initiative Exercise	Internal Audit Follow up report.

### **External Audit**

It is the responsibility of Internal Audit to co-ordinate its activities with External Audit and in 2015/16 Audit Scotland sought to place reliance on the following areas of internal audit work:

Non Domestic Rates	Trade Receivables
Council Tax	Financial Ledger
Payroll	Treasury Management
Trade Payables and Purchasing	Capital Accounting

Under the Code of Audit Practice, External Audit will also place reliance on the work of internal audit in the following areas:

- Performance Management Arrangements; and
- Statutory Performance Indicators.

### **Auditee**

Internal Audit in 2015/16 maintained contact with Executive Directors and Heads of Service individually and through Departmental Management Teams (DMTs) and the Strategic Management Team (SMT), throughout the financial year.

Internal Audit provided management with an independent and objective opinion on their controls and risks, recommending changes where appropriate through dialogue, audit reporting with graded recommendations set out in an agreed action plan.

In 2015/16, Internal Audit approach and reporting formats were in line with PSIAS good practice.

#### 4.5 PROFESSIONAL STANDARDS

The Internal Audit Team service is compliant with Public Sector Internal Audit Standards.

During the year compliance with PSIAS was the focus of many elements of Internal Audit work including:

- Ensuring revised practice was fully implemented
- Maintaining an Internal Audit Manual.
- Continuous review of audit approach, auditee engagement, stage tracker design and content of reporting

#### 4.6 AUDIT PLAN 2015/16

In compliance with the CIPFA Code of Practice for Internal Audit in Local Government, a draft annual audit plan for 2015/16 was presented to the Audit Committee in December 2014; and a final plan approved in March 2015. The plan was compiled from an analysis covering four key headings as set out in the table below.

1.	Materiality – An assessment of financial data;
2.	Risk – Assessment of operational, strategic and reputational damage;
3.	Control Effectiveness - Assessing external and internal reviews and reports;
4.	Performance Management – Assessing corporate, service and improvement plans.

The output from the analysis exercise was discussed individually with the Chief Executive, Executive Directors and Head of Strategic Finance. Thereafter a final draft audit plan was presented to both the SMT and Audit Committee for approval.

In addition, the audit plan included contingency days for special investigations, reporting recommendation implementation and national fraud initiative work.

The Audit Plan was completed subject to the following exceptions,

- Asset Management: Super-ceded by Audit Scotland Best Value review
- Resource Allocation System: Removed due to use of

- system being discontinued April 2016.
- Piers and Harbours: Delayed subject to on-going legal activity.

#### 4.7 GOVERNANCE & INTERNAL CONTROL STATEMENT 2015/16

The Customer Services Department annually test Council compliance with the Code of Corporate Governance. The Code requires the Council to have in place appropriate management and reporting arrangements. The role of Internal Audit is to provide assurance that the Council approach to Corporate Governance is adequate and effective. It does this through reviewing the evidence collected by Governance and Law.

Internal Audit reviews the results of its own audits and the reports of External Audit. These audit reports are reviewed along with departmental internal control statements prepared by Head of Services and Executive Directors.

Internal Audit via its Strategic Partners, Grant Thornton commissioned a review of the Governance statement preparation process in response to previous year external Audit comments and have incorporated a number of improvements.

#### 4.8 **Resource Allocation 2015/16**

The 2015/16 audit plan was based on five full time posts. I am pleased to report that Internal Audit service successfully recruited a Trainee Auditor during the year. Specialist support was available via our Strategic Partners, Grant Thornton. The number of available Audit days was impacted due to long term sickness absence.

In addition to planned Audit activity, special investigation, recommendation implementation reporting and national fraud work was also undertaken.

#### **Audit Opinion**

Based on audit work carried out in 2015/16 by Internal Audit, I am of the opinion that subject to the matters listed in the Statement of Governance and Internal Control being actioned, substantial assurance can be taken that the systems of governance and internal control are operating effectively.

The review of corporate governance undertaken by Internal Audit has indicated that the systems for governance are operating effectively, and a draft Joint Governance and Internal Control Statement has been produced. The draft statement has been presented to the Strategic Management Team (SMT) and will be presented to Audit Committee for approval. With specific regard to internal control, I am satisfied that recommendations made have been or are currently being being addressed by management, and my opinion on the Council's systems is based on those

recommendations being satisfactorily implemented.

The Annual Audit Plan for 2015/16 was subject to a slight over-run into April however is fully completed subject to the exception mentioned above.

The Governance Group who oversees the governance process has accepted the assurance provided by Internal Audit and the Audit Committee is asked to accept the same assurance, based on the audit work completed in 2015/16.

#### 4.9 ANALYSIS OF 2015/16

Details of the Audit completed together with Assurance level and number of recommendations is shown in Appendix 1. In Addition to the Audit plan the undernoted activity also took place:

- Continuous Monitoring Programme was rolled out with transactional type testing undertaken on a regular basis. Reporting is by exception and there are no outstanding action points.
- Quarterly reports were prepared for the Audit Committee advising of progress with the Annual Audit Plan and Quarter Activity;
- Reports covering External and Internal Audit recommendation implementation follow up have been provided to DMTs, SMT and Audit Committee.
- In 2015/16 Internal Audit held regular meetings with both the Head of Strategic Finance and Chief Executive to discuss audit plan progress, audit reports and recommendations.
- Analysis of returned client questionnaires in 2015/16 indicates that an average approval score of 4.5 was achieved by Internal Audit. The target for the section is to achieve 4 or better from the auditee who is judging the audit work undertaken as beneficial. The highest auditee approval score achievable is 5.
- The partnership with Grant Thornton and CIPFA has offered specialist support and advice where required. Grant Thornton undertook specific work in relation to Assurance Mapping and Risk Management as well as providing risk control refresher training to the Internal Audit Team.

#### 4.10 INTERNAL AUDIT PERFORMANCE

Internal Audit performance was satisfactory and performance indicators were on track throughout the year. The Audit Plan was subject to a slight over-run into April however was fully completed. The year-end outturn position was within budget with a small underspend of £1,500

#### 4.11 OVERVIEW

It has been a challenging year for Internal Audit with regards managing available resource and ensuring the timely completion of the Audit plan. It is my opinion the profile of Internal Audit continues to improve within the Council and there is a consistency in quality of reports prepared. Improvements require to be made in respect of timely client engagement and measures have been introduced to improve this aspect. Management and External Audit continue to place positive reliance on the work of Internal Audit. Positive developments have also been made in respect of improving links between Audit and Scrutiny activity.

### **5.0 CONCLUSION**

5.1 Subject to the matters listed in the Statement of Governance and Internal Control being actioned, substantial assurance can be taken that the systems of governance and internal control are operating effectively. The Internal Audit service continues to develop and improve.

### **6.0 IMPLICATIONS**

- 6.1 Policy – None. Report is for noting
- 6.2 Financial – None. Report is for noting
- 6.3 Legal – None. Report is for noting
- 6.4 HR – None. Report is for noting
- 6.5 Equalities– None. Report is for noting
- 6.6 Risk– None. Report is for noting
- 6.7 Customer Service– None. Report is for noting

**Kevin Anderson**  
**Chief Internal Auditor**  
**17 June 2016**

**For further information contact:**

Kevin Anderson, Chief Internal Auditor 01369 708505

### **APPENDICES**

- 1. AUDITS COMPLETED DURING 2015/16