

INTERNAL AUDIT – ANNUAL REPORT 2014 - 15

1.0 EXECUTIVE SUMMARY

- 1.1 This report is a review of Internal Audit for the period 2014/2015 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 2014/15 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 2014/2015.
- 1.4 Audit Committee are asked to note the conclusion and content of the report.

INTERNAL AUDIT – ANNUAL REPORT 2014 - 15

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 note the content of this report.

4.0 DETAIL**4.1 FOREWORD**

The annual audit plan for 2014/15 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). Internal Audit also complies with the Service Outcome and Terms of Reference, both of which have previously been approved by the Audit Committee and are outlined below.

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 meets 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 2014/15; the following report areas were presented:

Internal Audit Annual Plans	Internal Audits
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 2014/15 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 2014/15 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 2014/15, 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 and during The Internal Audit Team along with Grant Thornton completed all action points arising from the previous year's self-assessment /compliance review.

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

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

4.6 AUDIT PLAN 2014/15

In compliance with the CIPFA Code of Practice for Internal Audit in Local Government, a draft annual audit plan for 2014/15 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 with Executive Directors and Heads of Service individually and through meetings of with Departmental Management Teams (DMTs) and the Strategic Management Team (SMT). 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.

4.7 GOVERNANCE & INTERNAL CONTROL STATEMENT 2014/15

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 and signed by the Executive Directors.

Once the above review work is done a draft joint statement is presented to the Strategic Management Team (SMT) and the Audit Committee for review at their annual meeting in June. The statement once approved is then forwarded for signing by the Council Leader, Chief Executive and Head of Strategic Finance. The draft joint statement of governance and internal control is the subject of a separate report to the Audit Committee.

In addition to the process outlined above, Internal Audit via its Strategic Partners, Grant Thornton commissioned a review of preparation process in response to External Audit comments in their 13/14 annual report.

4.8 PROGRESS OF THE ANNUAL AUDIT PLAN 2014/15

Resource Allocation 2014/15

The 2014/15 audit plan was based on five full time posts with the total available days for direct audit work of 872 after deductions for non direct audit work, training and public and annual leave, etc. Actual audit days carried out by Internal Audit staff were 904, which included special investigations, with Grant Thornton providing assistance in the form of audit management and completion of the Assurance Mapping work.

A total of audit areas were planned for the financial year and these were allocated within the categories set out below:

Audit Plan 2014 - 2015		Planned	Actual
Fundamental Financial Systems	Full Audits	3	3
	Continuous Monitoring	6	6
Strategic and operational Risks		1	1
Corporate Governance & IT		4	4
Grant Certification		2	2
Corporate Support	Community Services	4	3
	Customer Services	6	6
	Development and Infrastructure	9	9
Establishments	Non-Schools	1	1
LA Schools	Schools & NPDO	3	3
Procurement/ Commissioning Contracts		1	1
Total		40	39

In addition special investigation, recommendation implementation reporting and national fraud work was undertaken. In 2014/15, 1 adjustment was made to the annual plan whereby the Health and Social Care Integration governance review was deferred to the 15/16 plan.

Audit Opinion

Based on audit work carried out in 2014/15 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 will be presented to the Strategic Management Team (SMT), Audit Committee and Executive. With specific regard to internal control, I am satisfied that all 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 2014/15 was completed as planned.

The Governance Group who oversees the governance process has accepted the assurance provided by Internal Audit and the Audit Committee are asked to accept the same assurance, based on the audit work completed in 2014/15.

4.9 ANALYSIS OF 2014/15

The audit plan has been completed and in particular:

- Quarterly reports have been prepared for the Audit Committee advising of progress with the Annual Audit Plan;
- Reports covering External and Internal Audit recommendation implementation follow up have been provided to DMTs, SMT and Audit Committee.
- In 2014/15 Internal Audit held regular meetings with both the Head of Strategic Finance and Chief Executive to discuss audit plan progress, audit reports and recommendations.
- The Audit Committee receive final Internal Audit report extracts after issue to management for action.
- Analysis of returned client questionnaires in 2014/15 indicates that an average approval score of 3.9 was achieved by Internal Audit. The target for the section is to achieve 3 or better from the auditee who is judging the audit work undertaken as beneficial. The highest auditee approval score achievable is 4.

The partnership with Grant Thornton and CIPFA has offered specialist support and advice where required. Grant Thornton undertook a discrete piece of work in relation to Assurance Mapping which was welcomed by management and the Audit Committee.

4.10 INTERNAL AUDIT PERFORMANCE

Internal Audit performance was satisfactory and indicators were all on track throughout the year. The Audit Plan was fully complete as a 31st March.

4.11 OVERVIEW

It has been a challenging year for Internal Audit with regards to implementation of revised processes and reporting formats. However, good progress has been made and in my opinion the profile of Internal Audit has improved and there is a consistency in quality of reports submitted. Management and External Audit continue to place positive reliance on the work of Internal Audit. Furthermore in its ongoing development the Audit Committee introduced a number of changes giving additional assurance in relation to:

- Introduction of regular updates of progress by the External Audit team of their audit plan;
- Enhancing the use of the strategic risk register including the inclusion of an assessment of scoring /risk appetite;
- Using the new Public Sector Internal Audit Standards (PSIAS) to introduce the internal audit charter and improve the process of scoping and signing off internal audits;
- Securing an Assurance Mapping report, and;
- Introduction of audit committee effectiveness sessions prior to audit committee meetings.

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

**Steve Barrett – Interim Head of Strategic Finance
19 June 2015**

For further information contact: Kevin Anderson, Chief Internal Auditor 01369 708505

APPENDICES

1. PERFORMANCE MEASURES 2014/15
2. AUDITS COMPLETED DURING 2014/15

APPENDIX 1 - PERFORMANCE MEASURES 2014/15

Internal Audit Team Scorecard 2014 – 15			
FY 14/15			
TEAM RESOURCES			
People			
PRDs IA Team G 	Target	Percentage of PRDs complete	
	100%	100%	
	Number of eligible employees FTE	Number of PRDs complete FTE	
	5	5	
Financial			
Revenue Finance	ACTUAL	BUDGET	G
Year to date	£225,970	£227,372	
Year end	£266,455	£266,455	
NEW INTERNAL AUDIT MEASURES			
% of risks within the SRR audited in reporting period	Actual	60%	G
	Target	30%	
	Benchmark		
Quarterly meetings held with Chair of Audit Committee	Actual	Yes	G
	Target	Yes	
	Benchmark	Yes	
% satisfaction rates from post audit surveys	Actual	100%	G
	Target	80%	
	Benchmark	80%	
% Recommendations followed up	Actual	100%	G
	Target	100%	
	Benchmark	80%	
% customer satisfaction with audit reports	Actual	100%	G
	Target	80%	
	Benchmark	80%	
Percentage qualified staff	Actual	60%	G
	Target	60%	
	Benchmark	60%	
Internal Audit Training	Actual	112 days	G
	Target	150 days	

APPENDIX 2 – AUDITS COMPLETED DURING 2014/15

Audit Name	Level of Assurance	No. of recommendations	High Recommendations
NPDO Arrangements	High	1	0
Stock	Substantial	0	0
Sickness Absence	Substantial	5	1
Crematoriums	Substantial	14	1
Section 75 Planning	Substantial	3	3
Insurance arrangements	Substantial	6	0
LGBF Indicators	Substantial	2	0
Risk Management	Substantial	2	0
Procurement -Utilities	Substantial	0	0
Airports	Substantial	2	0
Customer Service Centre	Substantial	7	0
Flag	Substantial	2	0
Income Maximisation Direct payments	Substantial	3	0
Leader LAG	Substantial	1	0
Pyramid	Substantial	7	3
Flood Risk Management	Substantial	0	0
Fostering and Adoption	Substantial	6	0
Revenue & Benefits	Substantial	0	0
Communications	Substantial	4	0
Information Security	Substantial	0	0
Homecare	Substantial	3	0
Adult Learning	Substantial	3	0
Business Support	Substantial	4	0
Employability	Substantial	1	0
ICT	Substantial	0	0
Marine Services	Limited	7	2
Capital Contracts and Operating Leases	Limited	3	1
Land and Asset Disposal	Limited	8	3
Winter Maintenance	Limited	10	3
CHORD	Limited	8	2