


Agenda Item No:	7	
Committee:	CORPORATE GOVERNANCE	
Date:	14th JULY 2015	
Report Title:	INTERNAL AUDIT OUTTURN AND QUALITY ASSURANCE REVIEW	

Cover sheet:

1 Purpose / Summary

To report performance against the 2014/15 audit plan, the annual opinion on the level of internal control, and the opinion of the effectiveness of internal audit.

2 Key issues

Public Sector Internal Audit Standards (PSIAS) have been issued to set the standard of internal auditing in the public sector. CIPFA has provided an additional Application Note for Local Government (LGAN). The DCLG has stated that both documents constitute 'proper practices' in internal control as per the Accounts & Audit regulations 2011.

The LGAN states that the Internal Audit Annual Report should include both the annual audit opinion, and the results of the continuous quality assurance and improvement program (QAIP).

A key performance objective of the team is to complete reviews of "fundamental" systems, which are included in the audit plan as they are considered key to the effective internal control of the Council. All of the planned "fundamental" systems were reviewed and provide substantial assurance based on the testing completed. External Audit (PwC) subsequently reviews this work and has been able to place reliance on the work completed. In addition they gave an unqualified opinion that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

100% of the teams planned activity was completed. This was based on a plan approved by the Corporate Governance Committee in April 2014. The team completed 38 planned audit reviews, plus additional assurance work that included advising on control and risks. The review of systems has enabled the Internal Audit Manager to provide an annual opinion. The overall opinion of the adequacy and effectiveness of internal control, across the Council, is that it is at an "adequate" level.

Regulation 6 (3) & 6 (4) of the Accounts and Audit Regulations 2011 requires relevant bodies to conduct an annual review of the effectiveness of its system of internal audit. The QAIP process is also part of the wider annual review of the system of internal control. The Council continues to provide an effective Internal Audit service as the review demonstrates satisfactory standards of compliance.

3 Recommendations

- The outturn of Internal Audit for 2014/15 is noted.
- The Internal Audit Manager opinion on the "adequacy" of Internal Control is noted.
- The positive outcome of the independent quality assurance review is noted.

Wards Affected	All
Forward Plan Reference	Not applicable
Portfolio Holder(s)	Not applicable
Report Originator(s)	Rob Bridge - Corporate Director & Chief Finance Officer Carol Pilson - Corporate Director Jonathan Tully - Internal Audit Manager
Contact Officer(s)	Rob Bridge - Corporate Director & Chief Finance Officer Carol Pilson - Corporate Director Jonathan Tully - Internal Audit Manager
Background Paper(s)	Internal Audit Plan 2014/15 Public Sector Internal Audit Standards CIPFA Local Government Application Note CIPFA Statement on the role of the Head of Internal Audit

Report:

1 Background / introduction

- 1.1 This report includes details, for the year 2014/15, of: -
- the coverage provided by Internal Audit; and
 - the Internal Audit Manager's opinion on levels of internal control across the Council.
 - the independent review of the effectiveness of the Internal Audit team.
- 1.2 The Internal Audit Manager has a professional reporting line to the Corporate Director & Chief Finance Officer, the responsible officer for duties under Section 151 of the Local Government Act 1972, plus the Corporate Director & Monitoring Officer with line management responsibilities for Internal Audit. The Internal Audit service also provides assurance to Senior Management regarding levels of control for systems for which they are responsible.
- 1.3 Full details of the Internal Audit objectives are contained within the Internal Audit Charter approved by the Corporate Governance Committee (minute CGC28/13).

2 Internal Audit Outturn

- 2.1 The annual audit plan is formulated in advance, following an assessment of risks inherent to services and systems of the Council based on internal audit and management knowledge at that time. During the period that follows, changes in the control environment may occur due to, for example: -
- introduction of new legislation/regulations,
 - changes of staff,
 - changes in software,
 - changes in procedures and processes,
 - changes in service demand,
- 2.2 The team has remained within budget and achieved a satisfactory level of planned and proactive unplanned work.
- The impact that resource changes and demand have upon achievement of the annual audit plan, varies each year. This year the Internal Audit Service has achieved 100% of the planned reviews. This is illustrated in the Appendix which lists the systems audited in the financial year.
- 2.3 Audit work includes testing of system controls, and there has been no finding of any significant error, fraud or irregularity. Management action plans have been agreed with the system owners including timescales for improvement appropriate to the level of risk. These action plans will be followed up by Internal Audit with management.
- 2.4 A key performance objective of the team was to deliver 'fundamental' audits, which are considered key financial systems. These are agreed with the external auditor (PwC), who review the work and take assurance from the testing completed as per International Standard on Auditing (ISA) 610. All systems had continued to operate to a satisfactory standard and were evaluated as having substantial assurance. Consequently the team had agreed, with the external auditors, that only 4 'fundamental' audits required review in the 2014/15 plan with the remainder being reviewed over a three year cycle. This approach was also subsequently approved for the 2015/16 audit plan.

3 Annual Internal Audit opinion on the internal control environment

- 3.1 The Council is required to report in its annual statutory financial statements an assessment as to the adequacy of the internal control environment, risk management, and governance arrangements. This is referred to as the Annual Governance Statement.
- 3.2 Information for this purpose is drawn from many sources one of which is the work of Internal Audit in that financial year, and up to the date of the approval of the annual accounts.
- 3.3 The Internal Audit Manager also facilitates assurance mapping, as part of the Annual Governance Statement evaluation, which documents and establishes additional sources of assurance.
- 3.4 The annual audit opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control
- 3.5 Based on the work that Internal Audit has performed the Internal Audit Manager's opinion for 2014/15 is that, there is "adequate" assurance as to the adequacy and effectiveness of internal controls in mitigating risks to the Council's corporate objectives. Management has adopted plans for improvement in control, and within appropriate timescales that will be followed-up to ensure further improvement is delivered. While no significant control weaknesses have been identified, potential risks and opportunities for further improvement have been incorporated into the Annual Governance Statement action plan.
- 3.6 This has been further supported by the external auditor (PwC) "Annual Audit and Inspection Letter 2013/14", as reported to Corporate Governance Committee at minute CGC15/14, which states an unqualified opinion that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

4 Review of the effectiveness of Internal Audit

- 4.1 Regulation 6 (3) & 6 (4) of the Accounts and Audit Regulations 2011 requires relevant bodies to conduct an annual review of the effectiveness of its system of internal audit. The process is also part of the wider annual review of the system of internal control.
- 4.2 DCLG guidance on the Accounts and Audit Regulations cites proper practice in relation to internal audit in local authorities:
 - From April 2013 all Public Sector Internal Audit Teams are required to comply with the Public Sector Internal Audit Standards issued by the Institute of Internal Auditors. CIPFA issued a mandatory 'Application Note' that adds further requirements for Local Government.
 - CIPFA has also issued guidance on the 'role of the Head of Internal Audit in Local Government' which supplemented the Code.
- 4.3 The Internal Audit Charter, Risk Based Plan and delivery, is based on these professional standards. Performance monitoring is also supplemented through frequent interaction between the Internal Audit Manager, the Corporate Director & Chief Finance Officer, and the Corporate Director with line management responsibilities for Internal Audit.
- 4.4 An independent review of effectiveness has been completed by the Corporate Director, based on the latest guidance and professional standards.
- 4.5 A further external assessment, which validates the annual review, will be planned over the medium term as per the professional standards. Currently the International Professional Practices Framework (IPPF) is being revised through an exposure draft led by the Institute of Internal Auditors (IIA), and any external assessment will be planned to reflect the latest IPPF and any subsequent amendments to the professional standards.
- 4.6 Overall the review has demonstrated satisfactory standards of compliance.

5 Effect on Corporate Objectives

- 5.1 The delivery on an effective Internal Audit Service is a key factor in maintaining an adequate level of internal control in the Council, and contributes to a Quality Organisation.

6 Conclusions

- 6.1 The Council has maintained an effective Internal Audit team which demonstrates a commitment to comply with the Public Sector Internal Audit Standards, and the CIPFA Local Government Application Note, as standards of good quality.
- 6.2 The Internal Audit team has provided audit and assurance work throughout the year to form an opinion on the effectiveness of internal control. There are no serious concerns highlighted and this assurance will form evidence for the production of the Annual Governance Statement, which accompanies the Statement of Accounts.

Appendix: Audits completed

No	Audit	Team area	Fundamental system
1	Asset & Premises Management - Utility charges	Growth & Infrastructure	
2	Benefits (H&CT) - Financial & Performance Control	Planning, Resources & Customer Services	Y
3	Car contract hire / Car loans	Planning, Resources & Customer Services	
4	CCTV	Housing, Environment, Leisure & Community	
5	Construction Industry Scheme	Planning, Resources & Customer Services	
6	Contract Monitoring - Highways	Growth & Infrastructure	
7	Corporate Assurance - Anti fraud & corruption	Policy & Governance	
8	Corporate Assurance - Performance management	Policy & Governance	
9	Corporate Assurance - Risk management	Policy & Governance	
10	Council Tax	Planning, Resources & Customer Services	Y
11	Customer Services - Fenland@yourservice	Planning, Resources & Customer Services	
12	Electoral registration	Policy & Governance	
13	Garage rents and arrears	Growth & Infrastructure	
14	Health - Food safety inspection and training fees	Housing, Environment, Leisure & Community	
15	Housing - Grant distribution (PSR/DFG)	Housing, Environment, Leisure & Community	
16	Housing - Mortgages	Planning, Resources & Customer Services	
17	Human Resource - Administration & policy	Planning, Resources & Customer Services	
18	Insurance claims and cover	Planning, Resources & Customer Services	
19	Land charges	Policy & Governance	

No	Audit	Team area	Fundamental system
20	Leisure Centre - Functions & events	Housing, Environment, Leisure & Community	
21	Leisure Centre - Income	Housing, Environment, Leisure & Community	
22	Leisure Centre - Payroll	Housing, Environment, Leisure & Community	
23	Leisure Centre - Stores	Housing, Environment, Leisure & Community	
24	Licences - Alcohol, Gambling, Taxis	Housing, Environment, Leisure & Community	
25	Members and Committee expenditure	Policy & Governance	
26	National Non Domestic Rates	Planning, Resources & Customer Services	Y
27	Payroll	Planning, Resources & Customer Services	Y
28	Petty cash	Planning, Resources & Customer Services	
29	Property maintenance	Growth & Infrastructure	
30	Refuse - Waste strategy & recycling credits	Housing, Environment, Leisure & Community	
31	Street Scene - Enforcement	Housing, Environment, Leisure & Community	
32	Trading operations - Cemetery income	Housing, Environment, Leisure & Community	
33	Trading operations - Markets	Housing, Environment, Leisure & Community	
34	Trading operations - Mini factories & Office units	Growth & Infrastructure	
35	Trading operations - Port, Commercial & Marine	Growth & Infrastructure	
36	Trading operations - Trade waste	Housing, Environment, Leisure & Community	
37	VAT	Planning, Resources & Customer Services	
38	Website and intranet content management	Policy & Governance	