


Agenda Item No:	11	
Committee:	CORPORATE GOVERNANCE	
Date:	19 JUNE 2018	
Report Title:	INTERNAL AUDIT OUTTURN AND QUALITY ASSURANCE REVIEW	

1 Purpose / Summary

To provide the Corporate Governance Committee with an overview of the work undertaken by Internal Audit during 2017/18;

To provide the Audit Managers annual opinion on the system of internal control;

To consider 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. These standards are mandatory for all principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015. CIPFA has provided an additional Application Note for Local Government (LGAN). Both documents constitute 'proper practices' in internal control as per the Accounts & Audit Regulations 2015.
- Under the Accounts and Audit Regulations 2015, the Council
 - *'must conduct a review of the effectiveness of the system of internal control'.*
- The work of Internal Audit forms part of the assurance provided to Councillors and Management Team and supports the Annual Governance Statement.
- The PSIAS state that the Audit Manager
 - *'must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.'*
- This report fulfils that requirement
- 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).
- Regulation 5 (1) of the Accounts and Audit Regulations 2015 requires that relevant authorities must 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. A continuous quality assurance and improvement programme is undertaken so that the Council continues to provide an effective Internal Audit service.

3 Recommendations

- To note the outturn for Internal Audit for 2017/18, which states all Audits were completed as per the agreed Internal Audit Plan 2017/18 and their associated assurance ratings.
- To note the Internal Audit Manager's opinion on the "adequacy" of Internal Control.

- To note the positive outcome of the independent quality assurance review.

Wards Affected	All
Forward Plan Reference	Not applicable
Portfolio Holder(s)	Not applicable
Report Originator(s)	Brendan Arnold- Corporate Director & Chief Finance Officer Carol Pilson - Corporate Director & Monitoring Officer Kathy Woodward- Shared Internal Audit Manager
Contact Officer(s)	Brendan Arnold - Corporate Director & Chief Finance Officer Carol Pilson - Corporate Director & Monitoring Officer Kathy Woodward- Shared Internal Audit Manager Anna Goodall – Head of Governance & Services Geoff Kent – Head of Customer Services
Background Paper(s)	Internal Audit Plan 2017/18 Public Sector Internal Audit Standards CIPFA Local Government Application Note Accounts and Audit Regulations 2015 CIPFA Statement on the role of the Head of Internal Audit

4 Background / introduction

- 4.1 This report includes details, for the year 2017/18, 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.
- 4.2 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.
- 4.3 Full details of the Internal Audit objectives are contained within the Internal Audit Charter approved by the Corporate Governance Committee (minute CGC38/17).

5 Internal Audit Outturn

- 5.1 The annual internal 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, for example: -
- introduction of new legislation/regulations,
 - changes of staff,
 - changes in software,
 - changes in procedures and processes,
 - changes in service demand,
- 5.2 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 is the first full year of the shared internal audit management arrangements and this year also saw the completion of the external assessment of the internal audit function take place. In December a revised internal audit plan was taken to the committee to realign the audits with the introduction of the shared auditing arrangements for Anglia Revenues Partnership (ARP) functions.
- 5.3 The team still managed to deliver the majority of the operational Audits detailed in the plan, with 6 being carried over to the new financial year (the majority of work has now been completed, but final reports still to be issued. There was also the addition of the four extra ARP audits provided each year to gain additional assurance from and the additional contract monitoring of Refuse and Recycling audit on behalf of the Recap Partnership. This is illustrated in Appendix A which lists the systems audited in the financial year and the number of recommendation made for each audit. Appendix B highlights the status of recommendations agreed from those audits.
- 5.4 Audit work includes testing of system controls, and this has not highlighted any significant fraud. Any errors or irregularities that have been identified have been resolved during the course of the audit and/or 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.

- 5.5 A key performance objective of the team was to complete 'fundamental' audits, which are considered key financial systems. Historically these systems had continued to operate to a satisfactory standard, and were evaluated as having substantial assurance. The team had agreed, with the external auditors (Ernst and Young), that only 4 'fundamental' audits required review in the 2017/18 plan with the remainder being reviewed over a three year cycle.

6 Annual Internal Audit opinion on the internal control environment

- 6.1 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 which is included as a part of this agenda.
- 6.2 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. All audits have been carried out in conformance with the Public Sector Internal Audit Standards.
- 6.3 The Internal Audit Manager also facilitates assurance mapping, as part of the Annual Governance Statement evaluation, which documents and establishes additional sources of assurance.
- 6.4 The annual audit opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control
- 6.5 Based on the work that Internal Audit has performed the Internal Audit Manager's opinion for 2017/18 is that, there is "adequate" assurance as to the adequacy and effectiveness of internal controls, the risk management and governance arrangements. Management has adopted plans for improvement in control, and within appropriate timescales that will be followed-up to ensure further improvement is delivered. Potential risks and opportunities for further improvement have been incorporated into Management action plans.
- 6.6 This has been further supported by the external auditor (Ernst & Young) "Annual Audit and Inspection Letter 2016/17", as reported to Corporate Governance Committee at minute CGC13/17, which states an unqualified opinion that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

7 Review of the effectiveness of Internal Audit

- 7.1 Regulation 5 (1) of the Accounts and Audit Regulations 2015 requires that relevant authorities must 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.
- 7.2 DCLG guidance on the Accounts and Audit Regulations cites proper practice in relation to internal audit in local authorities:
- All Public Sector Internal Audit Teams are required to comply with the Public Sector Internal Audit Standards (PSIAS) issued by the Institute of Internal Auditors (IIA). CIPFA issued a mandatory 'Local Government Application Note' (LGAN) intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
 - CIPFA has also issued guidance on the 'role of the Head of Internal Audit in Local Government' which supplemented the Code.
- 7.3 The Internal Audit Charter, Risk Based Internal Audit 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 & Monitoring Officer. Corporate Governance Committee have also increased their oversight of the delivery of the Audit Plan through quarterly monitoring of performance including number of audits completed and number of and rating of recommendations.

- 7.4 An independent review of effectiveness has been completed by an external assessment process completed in November 2017 by a CIPFA assessor. This is based on the latest guidance and professional standards and took the form of a self – assessment checklist covering all areas of the Public Sector Internal Audit Standards, Local Government Application Note and CIPFA’s Role on the Head of Internal Audit. Corporate Governance Committee considered this report on 4th December 2017.
- 7.5 The external assessment concluded that ‘the self-assessment is a good reflection of the Internal Audit Service’s practices and its contribution to the organisation. It is also our opinion that the service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and to the Local Government Application Note.’ This is the highest accolade that can be given from the assessor.
- 7.6 The next external assessment will take place in 2023 and in the intervening years the Corporate Directors will continue to complete an independent review of effectiveness on an annual basis.

8 Effect on Corporate Objectives

- 8.1 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.

9 Conclusions

- 9.1 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.
- 9.2 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 A: Audits completed

Audit	Team area	Overall opinion	Recommendations		
			High	Medium	Low
Contract Monitoring – Development / Planning Policy	Policy and Governance	Adequate	-	2	-
Website and Intranet content Management	Policy and Governance	Substantial	-	1	-
Asset and Premises Management – Utility Charges	Growth and Infrastructure	Adequate	-	-	-
Business Unit Lettings	Growth and Infrastructure	Adequate	-	2	-
Property Maintenance	Growth and Infrastructure	Adequate	-	1	-
Safeguarding	People, Finance and Customer Services	Adequate	-	6	-
Housing Standards – incl Residential Caravan Sites	Communities, Environment and Leisure	Substantial	-	1	2
Housing Strategy	Communities, Environment and Leisure	Substantial	-	-	-
Cemeteries	Communities, Environment and Leisure	Adequate	1	6	1
Sports Development	Communities, Environment and Leisure	Substantial	-	-	-
Economic Development – Tourism	Growth and Infrastructure	Adequate	-	3	-
Licences – Taxi's	Communities, Environment and Leisure	Adequate	3	4	-
Safer Fenland Partnership	Communities, Environment and Leisure	Substantial	-	1	-
Community House	Communities, Environment and Leisure	Adequate	-	2	-

Audit	Team area	Overall opinion	Recommendations		
			High	Medium	Low
Licences – Alcohol	Communities, Environment and Leisure	Substantial	-	-	-
CCTV	Communities, Environment & Leisure	Substantial	-	-	1
Housing - Grant Distribution (PSR / DFG)	Communities, Environment & Leisure	Substantial	-	-	-
Human Resources – Admin and Policy	People, Finance and Customer Services	Substantial	-	1	-
Petty Cash	People, Finance and Customer Services	Adequate	-	5	-
Construction Industry Scheme	People, Finance and Customer Services	Substantial	-	-	-
Car Loans	People, Finance and Customer Services	Substantial	-	-	1
Insurance Claims and Cover	People, Finance and Customer Services	Substantial	-	1	1
Payroll	People, Finance and Customer Services	Substantial	1	-	1
Anglia Revenues Partnership – Enforcement	People, Finance and Customer Services	Adequate	-	5	1
<i>Business Rates</i>	<i>People, Finance and Customer Services</i>	<i>Adequate</i>	-	10	6
<i>Council Tax</i>	<i>People, Finance and Customer Services</i>	<i>Adequate</i>	2	15	5
<i>Housing Benefits</i>	<i>People, Finance and Customer Services</i>	<i>Adequate</i>	-	17	8
<i>Housing Benefits Overpayments</i>	<i>People, Finance and Customer Services</i>	<i>Adequate</i>	-	10	5
* Contact Monitoring - Refuse & Recycling	Communities, Environment and Leisure	*			

Audit	Team area	Overall opinion	Recommendations		
			High	Medium	Low
Conservation and Regeneration Grants	Policy and Governance	Draft - Substantial			
Contract Monitoring – Highways	Growth & Infrastructure	Ongoing			
Development – Planning Obligations (S106/CIL)	Growth and Infrastructure	Ongoing			
Health – Food Safety	Communities, Environment & Leisure	Draft - Substantial			
Street Scene – Enforcement	Communities, Environment & Leisure	Draft - Adequate			
Stores – Works	People, Finance and Customer Services	Draft - Adequate			

Audits in *italics* have been undertaken by other Councils and reviewed by Fenland District Council Audit Manager as part of the Quality Assurance process. Not all of the recommendations included relate specifically to Fenland District Council, but to the partnership as a whole

* The Contract Monitoring – Refuse and Recycling Audit has been completed by Peterborough City Council on behalf of the Recap Partnership, with support provided by Fenland DC, South Cambridgeshire DC, Huntingdon DC and Cambridge City Council. The results of this audit do not cover our own operational systems, but those of contractor. The results of the audit have been discussed with our contract managers and an action plan is being implemented and monitored to ensure recommendations are completed within timescales.

An assurance rating is applied, when a system or process is reviewed, which reflects the effectiveness of the control environment.

The text below is an indication of the different assurance ratings used:

Assurance	Description
Full	There is a sound system of control designed to proactively manage risks to objectives.
Substantial	There is a sound system of control, with further opportunity to improve controls which mitigate minor risks.
Adequate	There is a sound system of control, with further opportunity to improve controls which mitigate moderate risks.
Limited	There are risks without effective controls, which put the objectives at risk.
None	There are significant risks without effective controls, which put the objectives at risk. Fraud and/or error are likely to exist.

Appendix B – Recommendation progress 2017/18

2017/18 Recommendations	HIGH	MEDIUM	LOW
Total number of recommendations made	7	93	32
Number of recommendations completed	3	10	1
Number of recommendations outstanding (not due)	4	83	31
Number of recommendations overdue	0	0	0

* Due to the external assessment process that took place throughout October, November and December a large number of audit reports were not issued until the last quarter of the year with many of them being issued as at the 31/03/2018.

This has resulted in a large proportion of the recommendations made, not being due until later into 2018. Progress will continue to be monitored throughout 2018 and presented to Corporate Governance Committee each quarter.

Appendix C: Summary of Internal Audit Effectiveness

					Compliance		
		Cat	Category of checklist	Comments	Y	P	N
Ethics	The ethics are based on the IIA standard set by the International Federation of Accountants.	1	0100 Definition of Internal Auditing		Y		
		2	0200 Integrity		Y		
		3	0300 Objectivity		Y		
		4	0400 Confidentiality		Y		
		5	0500 Competency		Y		
Attribute	These address the characteristics of organisations and parties performing internal audit activities	6	1000 Purpose, Authority and Responsibility		Y		
		7	1100 Independence and Objectivity		Y		
		8	1200 Proficiency and Due Professional Care		Y		
		9	1300 Quality Assurance and Improvement Programme		Y		
Performance	These describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated.	10	2000 Managing the Internal Audit Activity		Y		
		11	2100 Nature of Work		Y		
		12	2200 Engagement Planning		Y		
		13	2300 Performing the Engagement		Y		
		14	2400 Communicating Results		Y		
		15	2500 Monitoring Progress		Y		
		16	2600 Communicating the Acceptance of Risks		Y		
CIPFA Role	Defines the core activities and behaviours that belong to the role of the HIA in public service organisations & the organisational arrangements needed to support them.	17	Promoting good governance		Y		
		18	Objective & evidence based opinion on governance		Y		
		19	Position and engagement		Y		
		20	Adequately resourced Internal Audit Service		Y		
		21	Professional qualification and experience		Y		
					21	0	0

Y = Compliant: P = Partial compliance : N = Non compliance