



**AUDIT COMMITTEE – 10<sup>th</sup> June 2015**

**INTERNAL AUDIT ANNUAL REPORT 2014/15**

**Executive Summary**

- i. This report provides the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Authority's internal control arrangements based on the work of Internal Audit during 2014/15 and has been prepared in accordance with the Public Sector Internal Audit Standards (para. 3.1).
- ii. This annual review of the control arrangements has concluded with an adequate assurance opinion (para. 4.1). This has been based upon the completion of an agreed annual programme of risk based audit coverage which has enabled a valid assurance opinion to be provided (para 5.2 & Appendix 1). A significant element of this coverage relates to the audit work covering the Authority's fundamental financial systems (para. 6.13 – 6.19).
- iii. The key issues arising from all completed audits have been reported throughout the year within the Quarterly Internal Audit Reports and summarised in this report. (para. 6.15, 6.15 and 6.20).
- iv. The number of audit reports issued resulting in a negative assurance opinion has decreased. Most of the report findings relate in the main to 'people' issues and the non-compliance regarding the application of the necessary controls and checks. The extent of non-compliance will be monitored throughout the current year along with the negative report assurance opinions. (para. 6.2)
- v. Throughout the year the Audit Committee have been made aware of progress in the implementation of audit report recommendations. The implementation of audit report recommendations has continued to be an issue throughout the year. The monitoring of report recommendations will continue to be a priority for the Service. (para. 6.11.)
- vi. A number of matters requiring investigation have been completed throughout the year. No major issues have arisen from these although the control issues identified by Internal Audit have been highlighted for management attention. A separate annual fraud report is included on the agenda (para 7.1 - 7.4).
- vii. Divisional performance has been satisfactory. Two performance indicators marginally varied from target. The issue of final reports performance indicator is below target which has been mainly due to delays obtaining details required to finalise audit reports. The percentage of chargeable time is also below target due in the main to additional corporate requirements and time expended on the preparation of tenders. (Section 8).

## Report of the Head of Internal Audit

AUDIT COMMITTEE – 10<sup>TH</sup> JUNE 2015

### INTERNAL AUDIT ANNUAL REPORT 2014/15

#### 1. Purpose of Report

- 1.1 This annual report has been prepared adopting recommended practice contained within the Public Sector Internal Audit Standards (PSIAS) which came into effect on the 1<sup>st</sup> April 2013. These Standards require the Head of Internal Audit (HoIA) to report to the appropriate Member body, the Audit Committee, providing his opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control based on the work undertaken by Internal Audit.
- 1.2 In order to comply with these Standards the report provides:-
- i. an opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control;
  - ii. summary of the audit work undertaken to formulate the opinion;
  - iii. details of key control issues identified which can be used to inform the Annual Governance Statement (AGS);
  - iv. the extent to which the work of other review or audit bodies has been relied upon;
  - v. a summary of the performance of the Internal Audit service;
  - vi. a statement on conformance with the PSIAS and the results of its quality assurance and improvement programme; and
  - vii. a summary of the training and development activities undertaken within the Internal Audit Section

#### 2. Recommendations

##### 2.1 It is recommended that the Audit Committee:-

- i. considers the opinion provided by the Head of Internal Audit on the adequacy and effectiveness of the Authority's framework of governance, risk management and control;
- ii. notes the key issues arising from the work of Internal Audit in the context of the Annual Governance Statement (AGS) and;
- iii. considers the performance and activities of the Internal Audit function for 2014/15.

#### 3. Introduction / Background

- 3.1 In accordance with statutory best practice provided by the PSIAS, there is a requirement that the Head of Internal Audit (HoIA) prepares an annual report to the appropriate member body providing, amongst other things, an opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control. For the Authority, the appropriate member body is the Audit Committee.

- 3.2 The Accounts and Audit Regulations require all councils to publish an Annual Governance Statement (AGS) providing an opinion on the overall effectiveness of the Council's internal control and governance framework and detailing action to be taken in respect of any identified weaknesses. The AGS will address all aspects of corporate governance including internal control and risk management arrangements, in addition to financial controls.
- 3.3 This report provides a summary of key issues arising from the work of Internal Audit during 2014/15 which contribute to the overall assurance the HoIA is able to give the Audit Committee.
- 3.4 Although providing an important and significant contribution to the assurances the Audit Committee needs in its consideration of the AGS, this report forms only part of the assurance framework. The Audit Committee will receive the draft Annual Governance Statement for 2014/15 at its July meeting. The Audit Committee are therefore encouraged to consider this annual report in the context of broad controls assurance at its next meeting.

#### **4. Head of Internal Audit's Opinion on the Effectiveness of the Authority's Internal Control Environment**

- 4.1 The Audit Committee has received quarterly reports throughout the audit year. In each of these reports an adequate assurance opinion has been given reflecting an overall satisfactory level of internal controls and their application. Given those assurances I am able to give an overall **adequate** assurance opinion for the year. Although the overall number of audits resulting in a limited assurance opinion has again reduced slightly, the deterioration in the timely implementation of recommendations is an issue that by definition has weakened the control environment compared to 2013/14.
- 4.2 A number of audits did conclude with a limited assurance due to the level of non-compliance in the application of the necessary controls and checks. Whilst these issues have not in themselves influenced the overall assurance opinion, follow-up or re-audit work will be undertaken during the current year to obtain assurances that control frameworks have improved and are appropriate and effective.
- 4.3 Within the quarterly reports a number of key issues were drawn to the Committee's attention. These are summarised below (see paragraph 6.15, 6.16 and 6.20).
- 4.4 Of greatest significance and influence on this opinion is the result of the core system reviews for the 2014/15 financial year. This work contributes to the opinion on the statutory accounts given by External Audit and is therefore an important ingredient in the overall opinion. Details of the core systems reviews are given in paragraph 6.13.
- 4.5 Based on the other Internal Audit work undertaken during the year covering general systems, services and policy compliance, I am of the opinion that overall, systems were generally operating soundly, and no fundamental breakdown of controls were detected resulting in material discrepancy. In this regard it is important to stress that where control deficiencies were identified

within systems and procedures these have either been resolved with management through separate audit reports and/or correspondence or addressed at the time of audit.

- 4.6 As the Committee is aware, there has been a deterioration in the percentage of recommendations that management have implemented within the original agreed timescales. Whilst the vast majority of recommendations have ultimately been implemented, any delay naturally weakens the control environment.
- 4.7 It does however need to be recognised that Internal Audit coverage cannot guarantee to detect all errors, systems or control weaknesses or indeed identify all of the opportunities for improvements in management arrangements that might exist. Accordingly the assurance opinion provided is based on reasonable coverage, as resources allow, and cannot be regarded as absolute assurance. Equally, the assurance opinion is supported by the assurances given by the relevant lead officers responsible for the internal control and governance framework as part of the AGS process, that the underlying framework of controls, encompassing the Authority's Financial Regulations, various codes of practice, procedures and other financial governance arrangements, periodically reviewed by both Internal and External Audit, are appropriate and working satisfactorily within the services of the Authority.
- 4.8 Internal Audit assurance opinions are classified within a range of four options, two positive and two negative. The table below shows in broad terms the basis for the different opinions applied.

	<b>Level</b>	<b>Control Adequacy</b>	<b>Control Application</b>
<b>POSITIVE OPINIONS</b>	<b>Substantial Assurance</b>	A robust framework of controls exist that are likely to ensure that objectives will be achieved.	Controls are applied continuously or with only minor lapses.
	<b>Adequate Assurance</b>	A sufficient framework of key controls exist that are likely to result in objectives being achieved, but the control framework could be stronger.	Controls are applied but with some lapses.
<b>NEGATIVE OPINIONS</b>	<b>Limited Assurance</b>	Risk exists of objectives not being achieved due to the absence of key controls in the system.	A significant breakdown in the application of key controls.
	<b>No Assurance</b>	A significant risk exists of objectives not being achieved due to the absence of controls in the system.	A fundamental breakdown in the application of all or most controls.

- 4.9 Internal Audit seek to work closely as appropriate with other auditors, most significantly these relate to those of External Audit. However, for 2014/15 no work undertaken by these auditors or any other review body has been specifically relied upon in the provision of this annual overall assurance opinion.

## **5. Summary of Internal Audit Work and Coverage 2014/15**

- 5.1 Internal Audit aim to utilise a risk-based approach to planning its work. This approach seeks to ensure that the key risks facing the Authority are covered where appropriate by Internal Audit work. Internal Audit was able to use the Strategic and Operational Risk Registers to inform audit coverage. The audit planning process and details of the 2014/15 audit plan were reported to the Audit Committee in the March 2014 meeting.
- 5.2 The key areas of audit coverage during the year upon which the controls assurance opinion is based are listed below. The Audit Committee has received quarterly reports that incorporate the results of audit work and management's response on an on-going basis. Appendix 1 provides a summary of the areas covered during 2014/15.
- 5.3 At the beginning of the year provision is made in the allocation of audit resources for unplanned work, through a contingency. As requests for Audit work are received, or more time is required for jobs or changes in priorities are identified, time is allocated from this contingency. More recently, there has been a notable increase in the number of these adjustments which is indicative of the rapidly changing control environment and structure of the Council. Details of audit work which has been deferred, deleted or requests for specific pieces of work have been reported within the quarterly reports.
- 5.4 Appendix 1 shows by Directorate / Department the areas of Internal Audit coverage during the year. In broad terms the key areas of work undertaken were:-
- Systems and risk based reviews of the Authority's fundamental financial systems
  - Work in support of the Future Council Programme;
  - Systems based / management audit type reviews of services and other systems;
  - External / third party payments;
  - Themed visits to schools;
  - Reviews and input to re-engineered systems and processes;
  - Policy review and advice;
  - Corporate governance and general controls assurance work;
  - Contract audit and procurement, particularly giving specialist advice;
  - A programme of IT/Information Governance audit work;
  - Anti-fraud work, fraud detection and responding to allegations of fraud and irregularity via investigations;
  - Grant audit work and;

- Advice and consultancy services on a wide range of internal control issues.
- 5.5 It should be noted that Internal Audit work is variable both in its nature and timing. The risk-based approach ensures the highest priority work is undertaken. As with all plans, the audit plan was determined at particular time (March 2014) utilising information available and has been subject to significant changes in certain areas arising from the Future Council Programme and requests for audit input. The Audit Committee should be assured that within the finite resources available to Internal Audit, the key audit risks identified have either received audit attention during the year or are reflected in the audit plan for 2015/16.
- 5.6 The position at the end of the year for Audit days shows a shortfall of 97 days or approximately 4% of the original provision and does not jeopardise the ability to provide reasonable coverage and therefore a valid opinion. Due to the flexible nature of the plan this was constantly monitored and revised with any work that was unable to be resourced being carried over to the current audit year.
- 5.7 In terms of the overall delivery of planned days, a total of 2,076 days were delivered. Details of the original and revised plan along with how these days were actually spent against each Directorate are shown in Appendix 2.
- 5.8 Of increasing significance is the proportion of audit time that is utilised for advice, support to services innovation and initiatives, changes, projects and programmes, corporate change projects and general work that doesn't result in a specific report. Approximately one third of audit time is spent on jobs that generate a specific report. Details of the non-report work have been provided through the quarterly reports but in summary has covered the following:
- Grant verification
  - Final account reviews
  - Charity accounts
  - Requests for service reviews on a consultancy / advisory basis
  - Review of Financial Regulations and Contract Procedure Rules
  - Support and challenge to the Future Council programme
  - Anti-fraud advice, policy development, investigations, support to management
  - General advice to services in relation to controls, risk and governance
  - Audit Committee support
  - Follow-up of recommendations
  - Corporate document management / information asset requirements
  - Annual audit planning process
  - Feedback and liaison to all services
  - Input to the annual governance review
  - Policy review and advice
- 5.9 Whilst the work covered in the above list has not resulted in a specific assurance opinion, all work undertaken is considered in terms of the overall annual assurance provided in this annual report. Much of this work has also been considered in the 2015/16 planned coverage.

**6. Summary of Internal Control Issues Arising from Internal Audit work in 2014/15**

6.1 Internal Audit reported on 27 individual reviews of aspects of the Authority's internal control framework during 2014/15 that resulted in a formal report. These 27 audits sought to identify, test and review various controls to ensure management were meeting their responsibilities to establish and adhere to appropriate systems of internal control. A further 9 pieces of work remained in progress at the end of the year.

6.2 A summary of the assurance opinions given for the 27 reports issued for the year is shown below together with a comparison to 2013/14 and 2012/13.

Assurance Opinion		2014/15*		2013/14		2012/13	
		No.	%	No.	%	No.	%
Positive Opinions	Substantial	12	44	8	25	13	41
	Adequate	12	45	20	63	13	41
Negative Opinions	Limited	3	11	4	12	6	18
	No	0	0	0	0	0	0
<b>TOTAL</b>		<b>27</b>	<b>100</b>	<b>32</b>	<b>100</b>	<b>32</b>	<b>100</b>

\* excludes 2 core system reports as these have not all been formally issued.

It should be noted that clearly some audit areas have a greater significance and potential impact on the overall assurance opinion, i.e. a small establishment or system receiving a 'no assurance' opinion will have a negligible impact on the overall opinion compared to say, payroll receiving such an opinion. The number of reports issued containing a negative assurance opinion has marginally decreased compared to the previous two years.

6.3 Across the various completed pieces of work over 100 recommendations were made. These are summarised below:

Recommendation Category	No.	%	No.	%
	2014/15		2013/14	
<b>Fundamental</b>	<b>3</b>	<b>3%</b>	3	2%
<b>Significant</b>	<b>47</b>	<b>45%</b>	59	30%
<b>Merits Attention</b>	<b>54</b>	<b>52%</b>	134	68%
<b>Total</b>	<b>104</b>	<b>100%</b>	193	100%

Note - the reduction in Merits Attention recommendations from 2013/14 reflects a change in approach to merge issues to make the recommendations more meaningful and practical for management.

6.4 As can be seen, only 3 fundamental recommendations were made reflecting the fact that overall no major control issues were identified. In all cases management have agreed the recommendations and set their own timescales

for implementation. Internal Audit has continued to get excellent co-operation from management across the Council and at various levels.

- 6.5 Details of the key issues arising from these reviews have been presented to the Audit Committee in the quarterly reports. These findings have arisen across audit reviews ranging from specific establishments to the major financial systems and as a result of special investigations.
- 6.6 As is also stated in the quarterly reports it is important to note that the identification of control weaknesses does not necessarily indicate that any loss or inefficiency has actually occurred. Weaknesses indicate an increased *potential* that losses or inefficiencies could occur.
- 6.7 A major part of Internal Audit's assessment of controls is undertaken through the annual reviews of the core financial systems of the Authority. This work is conducted alongside External Audit who have regard to Internal Audit's work to assist in their opinion on the financial systems for their audit of the Accounts.
- 6.8 The core system reviews in relation to 2014/15 have recently been completed although at the time of writing this report, not all final reports have been formally agreed. The timetable for these reviews is once again extremely challenging to coincide with the closure of the accounts, External Audit requirements and Audit Committee dates. It is appropriate to highlight the significant co-operation received from the Business Support Services and Financial Services at a very busy time for them as well. A separate section on the core system reviews is given below.
- 6.9 In relation to specific establishments or other minor systems, controls are tested at a lower level to ensure the detailed operation of systems and procedures, and the use of assets and resources are effective.
- 6.10 In all audits undertaken, where more significant control issues are identified, follow-up action is undertaken to ensure appropriate remedial action has been implemented.
- 6.11 During the year 60 audit report recommendations were followed-up in accordance with the recommendation follow-up protocol. The table below provides details of the findings of this work:-

	2014/15		2013/14		2012/13	
	No.	%	No.	%	No.	%
Recommendation Implemented By Due Date	28	47	52	68	49	46
Recommendation Implemented after Due Date	19	32	13	17	25	23
Recommendation implemented by revised Due Date	13	21	12	15	33	31
<b>Total</b>	<b>60</b>	<b>100</b>	<b>77</b>	<b>100</b>	<b>107</b>	<b>100</b>



As referred to at para. 4.6 and shown in the Table above, there has been a deterioration in the number of recommendations implemented by the due date during 2014/15. The Audit Committee has expressed concern regarding this matter. Senior management have been reminded of their responsibilities to implement agreed recommendations to ensure any control, risk or governance weaknesses identified through internal audit work are corrected. Clearly, any significant delay in implementation or non-implementation weakens the overall control environment.

- 6.12 Internal Audit has found that in many cases the delay in the implementation of recommendations has been as a direct consequence of the significant demands placed on senior management over the last 12 months in implementing the Future Council involving the fundamental review of all services, restructuring and significant savings. It is hoped that in 2015/16 once the new Future Council structures have been fully implemented that senior management will be able to meet their timescales for implementing recommendations. However, it is acknowledged that additional and significant savings will be required over the next few years which may impact on management capacity.

#### Core System Reviews 2014/15

- 6.13 Overall there are 12 systems regarded as core and fundamental to the financial management of the Authority. At the time of compiling this report the core system reports marked \* were still in the process of being finalised. However, the assurance opinions are unlikely to change.

The assurance opinions given for each of them are shown in the table below:-

<b>Core System</b>	<b>Assurance Opinion 2014/15</b>	Assurance Opinion 2013/14	Assurance Opinion 2012/13	Assurance Opinion 2011/12	Assurance Opinion 2010/11
Purchase to Pay	<b>Adequate *</b>	Adequate*	Adequate	Adequate	Adequate
Income	<b>Limited *</b>	Adequate	Adequate	Substantial	Substantial
Council Tax	<b>Not Audited</b>	Substantial*	Substantial	Substantial	Substantial
Non Domestic Rates	<b>Not Audited</b>	Substantial	Substantial	Substantial	Substantial
Housing Benefits	<b>Not Audited</b>	Substantial	Substantial	Substantial	Substantial
Pay, Employee Admin & Org. Management	<b>Substantial</b>	Substantial	Adequate	Adequate	Adequate
Fixed Assets / Asset Management	<b>In Progress</b>	Adequate	Substantial	Adequate	Substantial
Cash Receipting & Banking	<b>Adequate</b>	Adequate	Adequate	Adequate	Adequate
Main Accounting	<b>Not Audited</b>	Substantial	Substantial	Substantial	Substantial
Housing Rents	<b>Substantial</b>	Substantial	Substantial	Substantial	Substantial
Treasury Management	<b>Not Audited</b>	Substantial	Substantial	Adequate	Adequate
SAP System Security	<b>Limited</b>	Not audited	Not audited	Substantial	Not audited

## Summary

Assurance Opinion	2014/15	2013/14	2012/13	2011/12	2010/11
Substantial	2 / 33%	7 / 64%	7 / 64%	7 / 58%	7 / 64%
Adequate	2 / 33%	4 / 36%	4 / 36%	5 / 42%	4 / 36%
Limited	2 / 33%	0 / 0%	0 / 0%	0 / 0%	0 / 0%
No	0 / 0%	0 / 0%	0 / 0%	0 / 0%	0 / 0%
In progress	1	0	0	0	0
Not audited	5	1	1	0	1

- 6.14 Due to the timing of these audits, the detailed results will be included in the Progress report to the July Audit Committee meeting.
- 6.15 In relation to the two areas that received a limited opinion, the key issues in the SAP Security review were the absence of an IT Business Continuity Plan relevant to the safeguarding of continuity of system provision and issues around the management and control of user access permissions.
- 6.16 With regards to the Income review, the audit identified weaknesses in the timeliness and consistent application of debt recovery procedures. This has resulted in many debts not receiving appropriate recovery action.
- 6.17 The overall approach to the audit of core systems was fundamentally reviewed and agreed with the Director of Finance, Assets & Information Services and External Audit. This resulted in a further refinement of the risk-based approach where in principal if a system had received a substantial assurance opinion in the previous year(s) a lighter touch review would be taken or indeed no audit undertaken. All systems are subject to an annual risk based review before a final decision is taken regarding the overall coverage.
- 6.18 It is noted and highlighted that the Future Council Programme will continue to have significant implications for the structure and nature of the Council's control framework. This will inevitably give rise to implications in terms of the effectiveness of control and governance structures and will require careful management in order to maintain continued positive assurance.
- 6.19 In respect of all the recommendations made in the core system reviews, a management response has been given to Internal Audit's satisfaction.

### Summary of Control Issues

- 6.20 During the year the Audit Committee has received quarterly reports that highlighted key control issues that could potentially undermine the provision of an overall positive assurance opinion for the year. The major issues that resulted in the issue of fundamental recommendations were:-
- The absence of personal recruitment information which was required by Ofsted to comply with the National Minimum Standards for Adoptions.
  - Two recommendations relating to the financial assessments and accuracy of calculations in respect of Foster Care payments.

- 6.21 Whilst these fundamental issues have been brought to the Audit Committee's attention during the year, when taken together and with the results of the 2014/15 core system reviews, I am satisfied to provide an adequate assurance opinion. It should also be added that in response to these issues, management have responded promptly to improve the control framework.

## **7. Matters Requiring Investigation**

- 7.1 During the course of the year, Internal Audit received a total of 20 issues of suspected irregularity ranging from full investigations to minor frauds which have been dealt with by departmental management. On other occasions advice was provided. 7 cases remain in progress into 2015/16.
- 7.2 This number of referrals and their nature represents a small proportion of the workforce and the total number of transactions processed. Whilst Internal Audit relies to a large extent on matters being alerted to them by management, the low number of referrals can be regarded as a positive source of assurance that the control environment of the Authority is currently working. Given the Council's Future Council Programme it will be important to maintain effective anti-fraud arrangements and financial stewardship in order to reduce the risk of irregularity and / or fraud throughout a period of significant change.
- 7.3 An Annual Fraud Report has been prepared for the Audit Committee's attention which provides more information regarding the anti-fraud work undertaken. To avoid unnecessary duplication this section is kept to a minimum.
- 7.4 Where system weaknesses have been identified as part of the investigation, Internal Audit have made recommendations to rectify these as appropriate, even where no evidence was found to support allegations. Where appropriate these reports are followed-up in the same way as other audit reports. Details of completed investigations will continue to be included in the quarterly reports to the Committee.

### **General Points to Note in Respect of Investigations Work**

- 7.5 It is clearly inappropriate for Internal Audit to report on any ongoing investigations as to disclose this information could prejudice the outcome. Details are provided, as above, as cases are finalised. It should also be noted that where issues are investigated and found not to warrant disciplinary action or referral to the Police, details are not publicised.
- 7.6 On the whole the matters investigated remain of a generally relatively minor nature and value. Many involve administrative errors, omissions or anomalies, whilst others represent opportunistic minor thefts and small-scale frauds. However, the Police are informed as a matter of routine where a theft is suspected.

## **8. Internal Audit Performance**

- 8.1 The key on-going measure of Internal Audit performance is the level of client satisfaction. In addition to these measures, the Section uses a range of performance indicators (PIs) to monitor operational efficiency. A full list of the PIs for 2014/15 is attached, also showing a comparison to performance in 2013/14, as Appendix 3 together with a narrative explaining each measure.
- 8.2 Feedback from clients met the target. A detailed breakdown of all the questionnaires returned is provided as Appendix 4.
- 8.3 The issue of final reports performance indicator is below target. The target number of days was reduced from 15 to 10 days therefore 'raising the bar'. In the majority of cases delays have arisen due to the unavailability of client management to obtain responses and final agreement. As has been reported to the Committee in previous progress reports this issue has become a feature of the year where managers have had significant operational and corporate responsibilities to manage (Future Council) with the consequential impact being in having to re-prioritise their attention. Despite this pressure, all reports are agreed and issued but some outside the target 10 days. This will be monitored and reported to the Committee during 2015/16.
- 8.4 On the whole operational performance is satisfactory given the changes the Council as a whole has gone through that have had implications on all services but also of course the Internal Audit function as well. As mentioned above, the function itself has undergone a fundamental review, restructured, secured additional external contracts and met other corporate requirements. The performance and achievement of the Internal Audit Team continues to reflect the tremendous efforts, flexibility, commitment and enthusiasm that all staff have shown.

### **8.5 Quality Control and Assurance**

The Accounts and Audit Regulations place a requirement for authorities to undertake a review of the effectiveness of the internal audit function. Given the Audit Committee's responsibility to consider this, a separate report has been prepared and is on the agenda for the meeting on 10<sup>th</sup> June 2015.

- 8.6 The Division has adopted a rigorous internal quality assurance process embedded within its operational procedures which is applied to each individual piece of audit work. In addition, an 'independent' quality control review has been undertaken in respect of four completed audits. The quality control review did not identify any issues.

### **8.7 Self Assessment against the requirements of the PSIAS:**

The new standards came into effect from the 1st April 2013. Initial and subsequent self-assessments against the Standards have been undertaken to identify and monitor any potential gaps in conformance. A further self assessment has been undertaken at the end of the financial year and has been used to inform the compliance programme for 2015/16. The compliance checklist summary is attached as Appendix 5.

The summary checklist highlights that in the majority of areas the function is assessed as 'generally conforms'.

There is partial conformance in the areas of:

- Organisational Independence
- Requirements of the Quality Assurance and Improvement Programme

There is non-conformance in the areas of:

- External Assessments

Where there is partial conformance, in general, the gaps relate to wording or housekeeping issues and where there is non-conformance these relate to procedures that have not yet been established because the Standards did not come into effect until 1st April 2013.

Details of conformance with the PSIAS are included in the Effectiveness of the Internal Audit Function report on the agenda.

## **8.8 Staff Training and Development**

In accordance with recommended practice, the Annual Report includes details of the training and development activities undertaken during the year as Appendix 6. Keeping skills fresh and taking on board new skills is essential for Internal Auditors in order to keep pace with changes in governance, technology, legislation and emerging industry best practice. During the year 14 members successfully completed a professional training programme provided by the Institute of Internal Auditors - a Certificate in Internal Audit and Business Risk. All staff have a Personal Development Plan.

## **9. Local Area Implications**

9.1 There are no Local Area Implications arising from this report.

## **10. Consultations**

10.1 All audit reports are discussed with the main auditee. Individual audit reports are provided to the appropriate Executive and/or Assistant Director to apprise him/her of key issues raised and remedial actions agreed. No specific consultation has been necessary in the preparation of this annual report.

## **11. Compatibility with European Convention on Human Rights**

11.1 In the conduct of investigations, Internal Audit operates under the provisions of the Data Protection Act 1998, the Human rights Act 1998, the Regulation of Investigatory Powers Act 2000 and the Police and Criminal Evidence Act.

## **12. Reduction of Crime and Disorder**

12.1 An inherent aspect of audit work is to prevent, detect and investigate incidents of fraud, theft and corruption. The control issues arising from audit investigations have been considered to ensure improvements in overall controls. Additionally, Internal Audit ensures that in specific instances,

management takes appropriate action to minimise the risks of fraud and corruption re-occurring.

### **13. Risk Management Considerations**

- 13.1 Whilst there are no specific risks emanating as a result of this report there are a range of risk issues worthy of consideration and note.
- 13.2 During the year, the Division reviewed and revised its operational risk register to ensure all risks to the delivery of the function's objectives were identified and could therefore be managed. This risk register is the subject of regular review in accordance with the corporate process.
- 13.3 The Audit Committee has received a detailed report on the audit plan including the basis of the plan and the utilisation of risk information. This is a critical aspect of the audit function and seeks to ensure audit resources are targeted at the areas of the Council's business where the most significant risks have been identified.
- 13.4 There is a risk to the Authority as a whole should the internal audit function not be effective. This would undermine the internal control and governance arrangements of the Authority and fail to provide the Audit Committee with the independent information upon which to base their assurance views upon. The provision of detailed quarterly reports during the year, plus this annual report and the report on the effectiveness of the audit function should act as mitigation in ensuring the Audit Committee is in a position to constantly keep the audit function under review.
- 13.5 There is a risk to the control and governance of the Authority if management fail to implement recommendations. In mitigation Internal Audit has introduced a more rigorous 'follow-up' process to ensure the most significant issues are implemented. This is reported to the Audit Committee within the quarterly and annual reports.

### **14. Employee Implications**

- 14.1 There are no employee implications arising from this report.

### **15. Financial Implications**

- 15.1 There are no financial implications arising directly from this report. The costs of the Internal Audit function and the external audit fees are included within the Authority's base budget.

### **16. Appendices**

- 16.1 Appendix 1 - Internal Audit Coverage 2014/15  
Appendix 2 - Internal Audit Plan 2014/15  
Appendix 3 - Internal Audit Performance Indicators 2014/15  
Appendix 4 - Summary of Internal Audit Feedback Received in 2014/15  
Appendix 5 - Public Sector Internal Audit Standards – Self Assessment  
Appendix 6 - Internal Audit Training Activity 2014/15

**17. Background Papers**

17.1 Various Internal and External Audit reports, files and working papers.

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**Date: 1<sup>st</sup> June 2015**

## INTERNAL AUDIT COVERAGE 2014/15

The table below lists the areas of Audit coverage and work undertaken during 2014/15. This incorporates work originally planned and additional work commissioned during the year.

Directorate	Audit Area
<b>Adults &amp; Communities</b>	C/F Safeguarding Recruitment & Selection Review Grants: <ul style="list-style-type: none"> <li>➤ Community Capacity</li> <li>➤ Funding Transfer from NHS to Social Care</li> </ul> Advice (general, commissioning, procurement & contracts, anti-fraud)
<b>Children, Young People and Families</b>	Schools Financial Value Statement & Governance Self-Assessment Schools - Financial Planning - Themed Audit Troubled Families Nursery Education Funding - Private Providers: Conditions of Grant Foster Care Payments Out of Authority Placements Briefings / Guidance to Schools Barnsley Governors Association Moorland Plastics Grants: <ul style="list-style-type: none"> <li>➤ Adoption Reform Grant Part B</li> <li>➤ Assessed and Supported Year in Employment</li> </ul> Advice (general, commissioning, procurement & contracts, anti-fraud)
<b>Development, Environment &amp; Culture</b>	C/F Renewal of PRIP Contract South Yorkshire Mining Advisory Service Trans Pennine Trail Wentworth Castle Grants: <ul style="list-style-type: none"> <li>➤ LTP - Maintenance Block</li> <li>➤ LTP - Integrated Transport Block</li> <li>➤ Strategic Priorities and Intelligence for SCR Businesses</li> <li>➤ Green Deal Pioneer Places Fund</li> <li>➤ Local Pinch Point Fund - Tranche 3</li> <li>➤ Better Bus Area Fund</li> </ul> Transport Leasing Costs Dearne Valley Playhouse HCA Peer to Peer Review Cash Accountability – Experience Barnsley Advice (general, commissioning, procurement & contracts, anti-fraud)
<b>Corporate Services</b>	<u>Legal and Governance:</u> Area Councils - Procurement Processes Compliance with Contract Procedure Rules* Taxi Licensing: Fees Charity Accounts



Directorate	Audit Area
	<p>Brierley Town Council  Constitution Review  Advice (general, commissioning, procurement &amp; contracts, anti-fraud)</p> <p><u>Human Resources, Performance &amp; Communications:</u></p> <p><u>Human Resources:</u>  HR Policies*  IIP Assessor Role</p> <p><u>Performance:</u>  Transition to Future Council*</p> <p>Advice (general, commissioning, procurement &amp; contracts, anti-fraud)</p> <p><u>Finance, Assets &amp; Information Services:</u></p> <p><u>Finance:</u></p> <p>C/F SAP User Roles  C/F Care Package and Payment System CONTROCC*  C/F Strategic Commissioning Support Unit*  Core Financial Systems*:  ➤ Purchase to Pay  ➤ Income  ➤ Pay and Employee Administration  ➤ Cash Receipting and Banking  ➤ Fixed Assets / Asset Management  ➤ Housing Benefits  ➤ SAP / Civica Icon Security  Revised P2P process review  Cash Collection arrangements  Debt Recovery and re-engineering  Local Council Tax Support Scheme  Business Rate Retention Scheme  Cash / Procurement Cards - Themed Audit*  Review of Financial Regulations*  Anti-Fraud Policies, Guidance and Training*  Anti-Fraud Review / Personal Budgets  Fraud Risk Self Assessments*  National Fraud Initiative - Review*  National Fraud Initiative*  Corporate Risk Management*  Pension Data  Annual Governance Statement Review*</p> <p><u>Assets:</u></p> <p>C/F Final Account Process Review*  Procurement Cards*  Carbon Reduction Commitment*</p>

Directorate	Audit Area
	Strategic Procurement Group* Final Accounts*  <u>Information Services:</u>  C/F Information Governance Framework* C/F IT Asset Management* Review of the Information Security & Computer Usage Policy*  Advice (general, commissioning, procurement & contracts, anti-fraud)
<b>Public Health</b>	C/F Public Health Service Delivery Advice (general, commissioning, procurement & contracts, anti-fraud)
<b>Council Wide</b>	External Audit Liaison* Audit Committee Support* Corporate Whistleblowing* Input to corporate initiatives* Audit Planning* Follow up of Audit Recommendations* Tender preparations
<b>Non Authority (reported to the relevant Audit Committee)</b>	Berneslai Homes South Yorkshire Police and Crime Commissioner South Yorkshire Police Chief Constable South Yorkshire Fire and Rescue Authority South Yorkshire Pensions Authority Combined Authority (incorporating former South Yorkshire Integrated Transport Authority)

Note – jobs marked \* relate to those with a cross-cutting theme or scope

## INTERNAL AUDIT PLAN 2014/15 – Position as at 31st March 2015

Directorate	Original 2014/15 Plan	Revised 2014/15 Plan	Actual Days
Adults and Communities	135	43	57
<b>Corporate Services:</b>			
➤ HR, Performance & Communications	110	101	69
➤ Legal & Governance	105	116	81
➤ Finance, Assets & Information Services	723	684	661
Children, Young People & Family Services	182	269	282
Development, Environment & Culture	166	186	167
Public Health	23	8	7
Council Wide	299	578	579
Contingency	267	21	N/A
Berneslai Homes	133	133	131
South Yorkshire Joint Secretariat	30	34	42
<b>Total Internal Audit</b>	<b>2,173</b>	<b>2,173</b>	<b>2,076</b>

Variance -97 Days

External Clients	Original 2014/15 Plan	Revised 2014/15 Plan	Actual Days
South Yorkshire Police & Crime Commissioner	300	300	240
South Yorkshire Police	454	454	445
South Yorkshire Fire & Rescue Authority	281	281	239
South Yorkshire Pensions Authority	280	280	219
Sheffield City Region Combined Authority	50	50	53
<b>Total Internal Audit</b>	<b>1,365</b>	<b>1,365</b>	<b>1,196</b>

<b>Total Chargeable Planned Days</b>	<b>3,538</b>	<b>3,538</b>	<b>3,272</b>
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**INTERNAL AUDIT PERFORMANCE INDICATORS FOR 2014/15**

Ref.	Indicator	Frequency of Report	Target 2014/15	Actual 2014/15	Target 2013/14	Actual 2013/14
<b>1.</b>	<b>Customer Perspective:</b>					
1.1	Percentage of favourable auditee questionnaire responses received (noted "good" or "very good") relating to work concluding with an audit report. (13 very good, 3 good, 1 acceptable and none poor)	Quarterly	95%	95%	95%	100%
<b>2.</b>	<b>Business Process Perspective:</b>					
2.1	Percentage of final audit reports issued and discussed within 10 working days of completion and agreement of draft audit report (Target for 2013/14 was 15 days)	Quarterly	80%	77%	80%	97%
2.2	Percentage of chargeable time against total available.	Quarterly	73%	67%	68%	68%
2.3	Total number of days lost through sickness as a percentage of the total number of days available.	Quarterly	6 days	6 days	6 days	6 days
<b>3.</b>	<b>Continuous Improvement Perspective:</b>					
3.1	Personal development plans for staff completed within the prescribed timetable.	Annual	100%	100%	100%	100%
<b>4.</b>	<b>Financial Perspective:</b>					
4.1	Total Internal Audit costs v budget.	Quarterly	Within Budget	Within Budget	Within Budget	Within Budget

## Performance Indicator Definitions and Supporting Information

PI Ref	Indicator	Comments
1.1	Percentage of favourable auditee questionnaire responses received (noted "good" or "very good") relating to work concluding with an audit report.	Questionnaires are left at the end on each audit job resulting in a formal report. The questionnaire asks 14 specific questions covering the effectiveness of audit planning, communication, timing and quality of the audit report. An overall assessment is sought as to the overall value of the audit. This is the answer used for this PI. All questionnaires are analysed in detail to ensure all aspects of the audit process are monitored and improved.
2.1	Percentage of final audit reports issued and discussed within 10 working days of completion and agreement of draft audit report. [Note – target in 2013/14 was 15 days]	This is an operational PI to ensure the timely issue of final reports following the completion and agreement of the draft audit report. This PI is also influenced by the availability of client staff.
2.2	Percentage of chargeable time against total available.	A key operational measure of the 'productivity' of Audit staff taking into account allowances for administration, general management, training and other absences.
2.3	Total number of days lost through sickness.	This PI will reflect the % chargeable time of staff in post, net of vacancies.
3.1	Personal development plans for staff completed within the prescribed timetable.	A corporate PI to measure the effectiveness of good absence / attendance management. Internal Audit place a high level of importance on staff training and continuous development and are committed to ensure all staff have their own training plans derived from the personal development plan process.
4.1	Total Internal Audit costs v budget.	This is an overall measure to note whether the Division's expenditure for the year has been kept within the budget.

## Analysis of Internal Audit Feedback Received During 2014/15

		Very Good	Good	Acceptable	Poor
<b>A</b>	<b>Audit Planning</b>				
1	Relevance of the audit objectives	13	3	1	0
<b>B</b>	<b>Communication</b>				
1	Consultation on scope and objectives of the audit	13	4	0	0
2	Communication during all aspects of the audit	13	3	1	0
3	Helpfulness co-operation of the auditor(s)	16	1	0	0
4	Professionalism of the auditor(s)	16	1	0	0
5	The auditor(s) demonstrated an appreciation of any relevant issues concerning equality and diversity	9	7	0	0
<b>C</b>	<b>Timing</b>				
1	Duration of the audit	13	4	0	0
2	Timeliness of the audit report	14	3	0	0
<b>D</b>	<b>Quality of the audit report</b>				
1	Format and clarity of audit report	15	2	0	0
2	Accuracy of the findings	14	3	1	0
3	Relevance of recommendations	13	3	1	0
4	Overall quality of the report	14	3	0	0
<b>E</b>	<b>Value of the audit</b>				
1	Basic controls assurance the audit has provided	13	3	1	0
2	Added value given beyond basic controls assurance	11	5	1	0
<b>3</b>	<b>Overall value of the audit</b>	<b>13</b>	<b>3</b>	<b>1</b>	<b>0</b>
		<b>77%</b>	<b>18%</b>	<b>5%</b>	<b>0%</b>
		<b>95%</b>			
	<b>Total Number of 'ticks' (A – E)</b>	<b>200</b>	<b>48</b>	<b>7</b>	<b>0</b>
	<b>Percentage</b>	<b>78%</b>	<b>19%</b>	<b>3%</b>	<b>0%</b>

Number ticks shown against each 'score' given

**Returned Questionnaires:-**

Quarter 1	5
Quarter 2	9
Quarter 3	2
Quarter 4	1
<b>Total</b>	<b>17</b>

## Auditee Comments (where given) :-

\*\*\*\*

I am very grateful for the assistance provided by Internal Audit in this matter, All of the suggestions have been progressed.

The Audit also helped to raise the issue of staff capacity and the additional time being required to undertake tasks due to poor IT support systems, for example the Council has purchased an EPOS Till system a year ago and the service is still waiting for IT to install it. We have been advised by IT that our service is not a priority and we have recently been subject to yet a further delay. The new system would save a considerable amount of staff time in reconciliation and in stock management.

\*\*\*\*

Met with Audit since report issued to discuss potential improvements / efficiencies to payments system. Audit input has been valuable and dialogue is ongoing.

\*\*\*\*

This audit was extremely valuable. It was a challenging task for the auditor to unpick the various working time arrangements and identify weaknesses and this was done with great attention to detail and thoroughness.

The audit findings were communicated professionally and sensitively in a way which has enabled us to identify practical steps to address deficiencies in current practices.

\*\*\*\*

Challenge of governance assurances was limited in this audit review. Internal Audit explained that this was due to the time available for the audit and the limited availability of management within the services chosen for sample testing.

\*\*\*\*

[Auditor's name]'s knowledge of systems and procedures is always a benefit, she is always considerate and the various part time working arrangements in our team and is happy to work around them accordingly.

\*\*\*\*

Really helpful that [Auditors name] was prepared to support the group in designing the system to ensure that it is robust and addresses the issues raised in the audit.

\*\*\*\*

Very good planning at the initial meeting, however some misunderstanding prior to the meeting re purpose as ideally [Auditee's name] was more relevant person.

\*\*\*\*

I agree with the all the conclusions made by the Auditors. I would like to take this opportunity to thank the Auditor for a well organised and informative visit.

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## Public Sector Internal Audit Standards – Self Assessment Checklist

		GC	PC	DNC
	<b>Definition of Internal Auditing</b>	✓		
<b>Ref.</b>	<b>Code of Ethics</b>			
1	Integrity	✓		
2	Objectivity	✓		
3	Confidentiality	✓		
4	Competence	✓		
<b>Ref.</b>	<b>Attribute Standards</b>			
1000	Purpose, Authority and Responsibility	✓		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter	✓		
1100	Independence and Objectivity	✓		
1110	Organisational Independence		✓	
1111	Direct Interaction with the Board	✓		
1120	Individual Objectivity	✓		
1130	Impairments to Independence or Objectivity	✓		
1200	Proficiency and Due Professional Care (The sum of Standards 1210-1230)	✓		
1210	Proficiency	✓		
1220	Due Professional Care	✓		
1230	Continuing Professional Development	✓		
1300	Quality Assurance and Improvement Programme (The sum of Standards 1310-1320)	✓		
1310	Requirements of the Quality Assurance and Improvement Programme		✓	
1311	Internal Assessments		✓	
1312	External Assessments			✓
1320	Reporting on the Quality Assurance and Improvement Programme	✓		
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	✓		
1322	Disclosure of Non-conformance	✓		
<b>Ref.</b>	<b>Performance Standards</b>			
2000	Managing the Internal Audit Activity (Sum total of Standards 2010 – 2060)	✓		
2010	Planning	✓		
2020	Communication and Approval	✓		
2030	Resource Management	✓		



		GC	PC	DNC
2040	Policies and Procedures	✓		
2050	Coordination	✓		
2060	Reporting to Senior Management and the Board	✓		
2070	External Service Provider and Organisational Responsibility for Internal Audit	N/A	N/A	NA
2100	Nature of Work (Sum of Standards 2110 – 2130)	✓		
2110	Governance	✓		
2120	Risk Management	✓		
2130	Control	✓		
2200	Engagement Planning (Sum of Standards 2201-2240)	✓		
2201	Planning Considerations	✓		
2210	Engagement Objectives	✓		
2220	Engagement Scope	✓		
2230	Engagement Resource Allocation	✓		
2240	Engagement Work Programme	✓		
2300	Performing the Engagement (The sum of Standards 2300-2340)	✓		
2310	Identifying Information	✓		
2320	Analysis and Evaluation	✓		
2330	Documenting Information	✓		
2340	Engagement Supervision	✓		
2400	Communicating Results (Sum of Standards 2410-2440)	✓		
2410	Criteria for Communicating	✓		
2420	Quality of Communications	✓		
2421	Errors and Omissions	✓		
2430	Use of 'conducted in conformance with the International Standards for the Professional Practice of Internal Auditing'	✓		
2431	Engagement Disclosure of Non-conformance	✓		
2440	Disseminating Results	✓		
2450	Overall Opinions	✓		
2500	Monitoring Progress	✓		
2600	Communicating the Acceptance of Risks	✓		

## INTERNAL AUDIT TRAINING 2014/15

The table below lists the training specifically undertaken by members of the Internal Audit and Risk Management division during 2014/15.

<b>Formal Course</b>	<b>Description</b>
IIA Certificate	Fourteen members of the Division have completed this professional qualification.
Thorny Procurement Questions	A one day external course covering the current / popular / topical questions on procurement, the course also covered industry best practice. One member of the Division attended this course.
Police Audit Conference	Two day conference covering governance arrangements within the police sector attended by 3 members of staff.
CIPFA Certificate in Corporate Governance	An external course over seven days covering principles and best practice on corporate governance. One member of the Division is attending this training.
CIPFA Certificate in Investigative Practice	Formal accredited qualification being undertaken by 2 members of the Team.
CIPFA Contract & Procurement Annual Audit Summit	One day externally hosted seminar highlighting contract procurement related risks.
CIPFA Seminar – Utilising Data Analytics to Prevent Fraud	One day seminar attended by 2 members of staff
Prevention and Detection of Council Tax Fraud	Training course attended by 4 members of the Team.
Right to Buy Fraud	Seminar attended by one member of staff.
Project management and Assurance	Seminar attended by one member of staff.

<b>Other Training</b>	<b>Description</b>
Information Governance (BOLD training)	On line training course on the principles and best practice in relation to information governance / information security. Twenty two members of the Division completed this training.
Job related:	By its very nature this is a broad ranging training requirement. It covers reading time for staff to familiarise themselves with a new system or technical requirements to mentoring or shadowing a senior member of the section. All staff have made use of this informal training throughout the financial year.

A significant proportion of allocated training days has been utilised by staff undertaking the IIA Certificate qualification.

### **Personal Development Reviews:**

The Division complies with the corporate PDR scheme. Reviews are held every six months at which point the training and development requirements of the individual are assessed in a constructive and supportive environment. All members of the Division have had their PDRs and a record of their training requirements is maintained and updated as required.

### **Dissemination of Training:**

To ensure that all members of the Division are kept informed, the information gained at a course is cascaded to the rest of the section. This can take several forms:

- Usually and the most common method used is that the slides / handouts are circulated to the section for their information. This is usually backed up with an informal Q&A session.
- The person(s) who attended the course can give a semi-formal talk / discussion at a team meeting about the main issues covered.
- At the Internal Audit away day there can be a more formal presentation of the issues / points covered in the training.

### **General Staff Support:**

Formal training is not the only option to staff in order for them to improve in their job. The PDR process also considers alternatives to training such as mentoring / shadowing, job related training, reading time, etc.

Each member of Internal Audit has a training budget of days that they can use to improve their understanding of their work, the Authority or their technical skills. Most undertake CPD with their respective professional bodies (CIPFA, CIIA, and AAT) and utilise the courses these bodies offer to keep themselves up to date.

Staff are supported and encouraged by management to maintain their knowledge and skills relevant to their current jobs and with a view for their progression / development to the next level.

