

REPORT TO: AUDIT & STANDARDS COMMITTEE

DATE: 17 JUNE 2015

TITLE: INTERNAL AUDIT ANNUAL REPORT 2014/15

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RECOMMENDED that the Committee:

- A** considers the contents of this report and appendices as part of its review of the adequacy and effectiveness of internal control;
- B** notes that for the 12 months ended 31 March 2015, the Internal Audit Manager confirms that the Council has adequate and an effective governance, risk management and control framework.

1. INTRODUCTION

This document summarises the results of internal audit work during 2014/15 and, as required by the Accounts and Audit (England) Regulations 2011, gives an overall opinion of the Council's governance, risk management and control framework.

2. OVERALL OPINION

No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. The work of Internal Audit is only intended to give reasonable assurance on controls. In assessing the level of assurance to be given, the Internal Audit Manager has taken into account:

- All reviews completed during the year.
- Any follow up actions taken in respect of audits from previous periods.
- Any fundamental recommendations not accepted by management (there were none) and the consequence of risk.
- The effect of any significant changes in the Council's objectives, activities or systems.
- Whether any limitations have been placed on the scope of Internal Audit (there have not been any).
- Whether there have been any resource constraints that may impinge on Internal Audit's ability to deliver the agreed Internal Audit Plan (there have been none).
- Matters arising from previous reports to the Audit and Standards Committee.

Based upon the results of work undertaken during the year it is the Internal Audit Manager's overall opinion that the Council has an adequate and effective governance, risk management and control framework.

3. CONTEXT

This report outlines the work undertaken by Internal Audit covering the period 1 April 2014 to 31 March 2015.

Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment. Internal Audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. On behalf of the Council, Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of these arrangements.

Internal Audit is required by professional standards to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards.

The primary role of Internal Audit is to provide assurance to the Council (management, Heads of Service and the Audit and Standards Committee) and ultimately the taxpayers that the Council maintains an effective control environment that enables it to manage its significant organisational risks. Internal Audit helps the Council achieve its objectives and provide assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of the Council's control environment which feeds into the Annual Governance Statement.

4. INTERNAL AUDIT WORK DURING 2014/15

The 2014/15 Internal Audit Plan was presented to the Audit and Standards Committee in March 2014. The Plan was prepared based on the risks associated with the Council's objectives in consultation with key officers and took into account:

- Knowledge and experience accumulated in Internal Audit, including the results of previous reviews.
- A review of audit themes against the Corporate Risk Register and Council priorities.

- The work of other assurance providers both internally and externally.
- The external environment including economic climate, government initiatives such as welfare reform and changes in funding.
- Harmonisation of themes with the Borough of Broxbourne Council to enable benchmarking and sharing of good practice.

The Plan was designed to allow sufficient audit coverage to support the overall opinion for the Council. There have been some variations to the Plan, which have been approved by the Audit and Standards Committee, and there has been sufficient internal audit coverage in order to give this opinion.

At the end of each assurance review, a report is issued giving a formal audit assurance rating. This rating is based on an assessment of the key management arrangements and internal controls in place and measured using the following scale:

- 'Full' assurance – There is a comprehensive system of control designed to achieve the system objectives and manage risks in achieving those objectives. No weaknesses have been identified.
- 'Substantial' assurance – Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of system objectives at risk.
- 'Moderate' assurance - Basically sound control, with areas of weakness, which put systems objectives at risk.
- 'Limited' assurance – There are significant weaknesses in key control areas, which put system objectives at risk.
- 'No' assurance – There are fundamental control weaknesses, leaving the system open to material error or abuse.

5. SUMMARY OF ASSURANCE WORK

A total of 24 assurance reviews were completed and overall the audits are positive with the majority being given Moderate or Substantial assurance:

- 11 Substantial assurance
- 9 Moderate assurance
- 4 Limited assurance
- No report was given No assurance

For the reports giving Limited assurance these tend to relate to a specific area rather than represent a breakdown of controls across the Council. In particular the functionality of the Council's Asset Management system needs to be improved and there is a Council wide project to reduce the Council's dependency on cash.

Appendix A sets out the audits undertaken during 2014/15, with their assurance rating, and includes a small number of audits carried over from the 2013/14 Audit Plan.

Tracker process

Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. Recommendation categories, in order of priority, are Fundamental, Significant and Requires Attention.

In 2014/15 a new process was introduced to track and report on progress of the management implementation of agreed recommendations which is actively monitored by CMT/HoS. The Audit and Standards Committee receives a report of all overdue recommendations plus any fundamental recommendations from final reports issued, regardless of whether they are overdue or not.

The new process is working well with greater commitment by managers to ensure audit recommendations are implemented or there are good business reasons why there has been a delay. There are no significant issues to report regarding the implementation of audit recommendations.

Other Sources of Assurance

The opinion given in this annual report does not rely solely on the formal audits undertaken by the Section.

Special investigations: Internal Audit investigates any allegations of fraud and suspected irregularity although there are separate arrangements for reporting, investigating and dealing with benefits fraud. A record is maintained of all reported and alleged fraud and theft, which forms the basis for an annual report on fraud which is presented to the Audit and Standards Committee. For 2014/15 there were no significant (estimated at more than £10,000) investigations into suspected fraud. Hence, an annual fraud report has not been presented to the Audit and Standards Committee.

Internal Audit was involved in one special investigation during the year which was reported to a previous Audit and Standards Committee in a confidential session. The value of this was below the £10,000 threshold.

Advice: Internal Audit is most effective when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems. This includes Internal Audit acting in an ex-officio role on key business groups which in 2014/15 included:

- The Corporate Governance Group.
- Risk Management Group.
- New Bankers project.
- Technology Forge Task and Finish Group.

In addition, Internal Audit raises awareness of control issues throughout the

Council particularly through the update of key governance documents which in 2104/15 included a revision of the Risk Management Strategy and the co-ordination and analysis of service assurance statements which feed into the Annual Governance Statement.

Anti-Fraud and Corruption work: Harlow Council participates in the National Fraud Initiative, which is a data matching exercise run every two years. The exercise seeks to identify fraud spanning public bodies and Internal Audit is the key point of contact and facilitates and supports the Council's involvement.

6. EFFECTIVENESS

This section of the report sets out information on the effectiveness of the Internal Audit Service and compliance with the Public Sector Internal Audit Standards (PSIAS).

In March 2015 the Internal Audit Service undertook a self-assessment against the requirements of PSIAS and concluded it was compliant with this. This was reported to the Audit and Standards Committee with an action plan to address the minor issues arising, where there was partial rather than full compliance with the standards.

Internal Audit has a Quality Assurance and Improvement Programme (QAIP). The QAIP includes internal and external assessments of effectiveness, both on-going and periodic monitoring. Any areas for improvement are identified in the PSIAS compliance self- assessment.

The regular progress reports presented to the Audit and Standards Committee provide Councillors with the opportunity to monitor Internal Audit's output and effectiveness. Feedback on the implementation of recommendations also provides evidence of the degree of influence Internal Audit has on changes to strengthen the control framework for the Council.

Performance indicators are in place to monitor service performance and reported at each Audit and Standards Committee with a summary for the year presented below:

<i>Performance indicator</i>	<i>2014/15 Target</i>	<i>Actual Year End 2014/15</i>
Number of audit reports	38	30*
Number of follow up reviews	25**	6
Percentage of 2014/15 audit plan completed	90%	95% ***
Percentage of recommendations accepted	90%	100%

Performance indicator	2014/15 Target	Actual Year End 2014/15
Audit Plan approval	2014/15 Audit Plan approved by committee by 31March 2014	Completed
Annual report completion	Annual report completed by 31May 2015	Completed
Reliance placed by external audit where required	External auditors indicate that they are able to place reliance upon internal audit reviews of the main financial systems where requested.	Completed

* Audit reports issued include those audits carried forward from 2013/14 and an additional audit in 2014/2015 as requested by management.

** The number of formal follow up reviews has been significantly reduced due to the introduction of the new tracker process

*** The Audit & Standards Committee approved the deferral/cancellation of 11 audits

Internal Audit staff participate in Continuous Professional Development including keeping abreast of best professional practice. Members of the Internal Audit Team participate in various networking groups including the Essex Audit and Counter Fraud Group and the London Audit Group, where speakers on topical issues give presentations. There are also close working relationships with other Councils.

IMPLICATIONS

Place (includes Sustainability)

None specific.

Author: **Graeme Bloomer, Head of Place**

Finance (includes ICT)

The results of this report and the Internal Audit Manager's overall opinion provide sources of assurance for the Annual Governance Statement.

Author: **Simon Freeman, Head of Finance**

Housing

None specific.

Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Equalities and Social Inclusion)

None specific.

Author: **Jane Greer, (Acting) Head of Community Wellbeing**

Governance (includes HR)

The review ensures that the Council fulfils the requirements of Regulation 4 of the Accounts & Audit Regulations (England) 2011.

Author: **Brian Keane, Head of Governance**

Background Papers

NB: There are papers referred to in the preparation of the report that are not attached as appendices but that are available for public or Councillor study.

Public Sector Internal Auditing Standards (PSIAS) 2013
Accounts and Audit Regulations (England) 2011

Glossary of terms/abbreviations used

CMT – Corporate Management Team

HoS – Head of Service

QAIP - Quality Assurance and Improvement Programme

Appendix A