

REPORT TO: **AUDIT AND STANDARDS COMMITTEE**

DATE: **22 JUNE 2016**

TITLE: **INTERNAL AUDIT ANNUAL REPORT 2015/16**

LEAD OFFICER: **SARAH MARSH, INTERNAL AUDIT
MANAGER (01279) 446884**

RECOMMENDED that the Committee:

- A** Reviews the contents of this report and appendices as part of its review of the adequacy and effectiveness of internal control.
- B** Agrees that, for the 12 months ended 31 March 2016, the Council has operated an adequate and effective governance, risk management and control framework.

INTRODUCTION

1. This document summarises the results of internal audit work during 2015/16 and, as required by the Accounts and Audit (England) Regulations 2015, and gives an overall opinion of the Council's governance, risk management and control framework.

OVERALL OPINION

2. 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:
 - (i) All reviews completed during the year.
 - (ii) Any follow up actions taken in respect of audits from previous periods.
 - (iii) Any fundamental recommendations not accepted by management (there were none) and the consequence of risk.
 - (iv) The effect of any significant changes in the Council's objectives, activities or systems.
 - (v) Whether any limitations have been placed on the scope of Internal Audit (there have not been any).
 - (vi) 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).
 - (vii) 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.

CONTEXT

3. This report outlines the work undertaken by Internal Audit covering the period 1 April 2015 to 31 March 2016.
4. 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.
5. 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:
 - (i) the opinion;
 - (ii) a summary of the work that supports the opinion; and
 - (iii) a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
6. 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.

INTERNAL AUDIT WORK DURING 2015/16

7. The 2015/16 Internal Audit Plan was presented to the Audit and Standards Committee in March 2015. The Plan was prepared based on the risks associated with the Council's objectives in consultation with key officers and took into account:
 - (i) Knowledge and experience accumulated in Internal Audit, including the results of previous reviews.
 - (ii) A review of audit themes against the Corporate risk register and Council priorities.
 - (iii) The work of other assurance providers both internally and externally.
 - (iv) The external environment including economic climate, government initiatives such as welfare reform and changes in funding.
 - (v) Harmonisation of themes with Borough of Broxbourne Council and Epping Forest District Council to enable benchmarking and sharing of good practice.

8. 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.
9. 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:
 - a) '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.
 - b) '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.
 - c) 'Moderate' assurance - Basically sound control, with areas of weakness, which put systems objectives at risk.
 - d) 'Limited' assurance – There are significant weaknesses in key control areas, which put system objectives at risk.
 - e) 'No' assurance – There are fundamental control weaknesses, leaving the system open to material error or abuse.

SUMMARY OF ASSURANCE WORK

10. A total of 18 audit reports were issued, with 14 of these being assurance reviews, and overall the audits are positive with the majority being given Substantial assurance:
 - 9 Substantial assurance
 - 4 Moderate assurance
 - 1 Limited assurance
 - 0 No assurance
11. For the reports giving Moderate or Limited assurance, these tend to relate to a specific area rather than represent a breakdown of controls across the Council.
12. Appendix A sets out work carried out by the Internal Audit Team during the year in narrative form and compares this to the original plan agreed by the Audit and Standards Committee in March 2015. Appendix B lists the individual audit reports issued during 2015/16, with their assurance rating, and includes a small number of reports carried over from the 2014/15 Audit Plan.

Tracker process

13. 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'.

14. Reports on progress of the management implementation of agreed recommendations are 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.
15. The process, which was introduced in 2014/15, continues to work well to ensure greater commitment by managers to implement audit recommendations unless there are valid business reasons why there is a delay. There are no significant issues to report regarding the implementation of audit recommendations.

Other Sources of Assurance

16. The opinion given in this annual report does not rely solely on the formal audits undertaken by the section.
17. *Special investigations:* the Internal Audit Team investigates any allegations of fraud and suspected irregularity. 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 2015/16 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.
18. Internal Audit was involved in two special investigations during the year, one of which was reported to a previous Audit and Standards Committee in a confidential session. The value of this was below the £10,000 threshold. There were no findings to report from the other investigation.
19. *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 2015/16 included:
 - a) Corporate Governance Group
 - b) Risk Management Group
 - c) Technology Forge task and finish group
 - d) Prevent task and finish group
 - e) Harlow Trading Services governance group
 - f) IT Operations Board.
20. In addition, Internal Audit raises awareness of control issues throughout the Council particularly through the update of key governance documents which in 2015/16 included a review of the Council's whistleblowing policy and the co-ordination and analysis of service assurance statements which feeds into the Annual Governance Statement.
21. *Anti-Fraud and Corruption work:* Harlow Council participates in the National Fraud Initiative which is a data matching exercise run annually by the Cabinet Office. 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.

22. Towards the end of 2015/16 Internal Audit has been assisting Housing to strengthen their anti-fraud approach especially around Right-To-Buys.

EFFECTIVENESS

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

24. During the year the Internal Audit Team undertook a self-assessment against the requirements of PSIAS and concluded it was compliant with these. The results were reported to the Audit and Standards Committee at its meeting on 09 March 2016 with an action plan to address the minor issues arising, where there was partial rather than full compliance with the standards.

25. 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.

26. 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.

27. 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:

Aspect of Service	Performance Indicator	Target	Outcome
Cost of service	Financial budgets	Within financial budgets	Within financial budgets
	Staff productivity	85%	83%
Internal Audit (IA) processes	Achievement of the Annual Plan	95% minimum	72%*
	Draft report issued after closing meeting	10 working days	Met for all reports issued by IA Team <i>(except one delay pending further information)</i>
	Final report issued after client agreement to draft	5 working days	Met for all reports issued by IA Team <i>(except one delay due to unavoidable)</i>

Aspect of Service	Performance Indicator	Target	Outcome
			<i>staff absence)</i>
Effective management engagement	Management responses within 10 working days of draft report	10 working days	Partly met <i>(responses to seven reports were delayed for reasons beyond Internal Audit's control)</i>
	Agreed audit recommendations implemented	Within agreed timescales	Not met as reported via the tracker
Compliance with professional standards	Public Sector Internal Audit Standards	100% compliant	100% compliant

* This figure is based only on audit reports issued. The Audit and Standards Committee approved the deferral/cancellation of nine audits in March 2016. Other audit work in 2015/16 includes participation on project and business groups which is difficult to quantify in terms of audit plan coverage.

28. 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, the Midland Audit 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

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

Governance

The review ensures that the Council fulfils the requirements of the Accounts & Audit Regulations (England) 2015.

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

Appendices

Appendix A – Internal Audit 2015-16 Outcomes

Appendix B – Audit Report Monitoring 2015-16

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) 2016

Accounts and Audit Regulations (England) 2015

Glossary of terms/abbreviations used

CMT – Corporate Management Team

HoS – Heads of Service

QAIP - Quality Assurance and Improvement Programme