

Audit and Governance Committee

22nd June 2015

ANNUAL INTERNAL AUDIT REPORT

2014/15



Report of the Audit Manager – Shared Internal Audit Service

Wards Affected – all

1.0 PURPOSE OF REPORT

- 1.1 To consider the key findings and conclusions from audit work undertaken in 2014/15 and to give an opinion on the overall adequacy and effectiveness of the Council's arrangements for risk management and governance and on its internal controls.

2.0 RECOMMENDATION

- 2.1 Members are recommended to note the contents of the report and the attached Appendix.

3.0 BACKGROUND

- 3.1 2014/15 was the final year of the original Shared Internal Audit Service collaboration arrangement with Harrogate Borough Council. The service was hosted by Harrogate and the agreement was that 250 days annually would be provided to Craven. The Shared Service was managed by a Partnership Board which consisted of the Chief Finance Officers of the two authorities. Both authorities have agreed to roll forward the collaboration arrangements on internal audit for a further three years. The respective Chief Finance Officers have now signed an agreement to this effect.
- 3.2 Under the Public Sector Internal Audit Standards (PSIAS) the "chief audit executive" or equivalent is required to submit an annual report which should include an overall opinion on the adequacy and effectiveness of the organisation's risk management and governance arrangements and on its internal controls. In addition, the report should include a summary of audit work actually undertaken compared to work that was planned, comment on the performance of internal audit and on compliance with the PSIAS.
- 3.3 The Council is responsible for ensuring it complies with the law and proper standards to carry out its business. As such, the Council is responsible for ensuring that effective risk management and governance arrangements and internal controls are in place in order to deliver value for money in the use of its resources and to achieve its corporate and service objectives.

- 3.4 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Public Sector Internal Audit Standards).
- 3.5 Internal audit can provide reasonable assurance on the arrangements and controls examined. This does not imply infallibility. Internal auditors cannot be expected to identify each weakness or irregularity. Also, internal audit is not an extension or substitute for management. It is for management to accept internal audit findings and implement recommendations or to accept the risks of not taking action.

4.0 AUDIT APPROACH

- 4.1 On reporting lines, the Internal Audit Service operated under general liaison with the Strategic Manager, Financial Services (S151 Officer). The Audit Manager and Principal Auditor also held meetings with the Chief Executive.
- 4.2 The Audit Manager attended meetings of the Audit and Governance Committee to summarise progress and present individual audit reports. Together with the Principal Auditor, he also held meetings with the Chair of the Committee.
- 4.3 On individual assignments, Internal Audit liaised with the relevant managers to agree the programme of work, kept them informed of progress during the course of the audit in question and subsequently discussed findings and agreed recommendations.
- 4.4 In terms of process, a risk-based approach was used to identify and evaluate the application of financial and other management controls. This included getting out into the departments to talk to staff on the ground to balance a 'desk-top' approach.
- 4.5 The level and mix of staff for each audit was determined by the knowledge and experience of the Auditors in the Team relative to the complexity of each assignment. Specialist auditors, for example, on computers and procurement/contracts, were allocated assignments as appropriate.
- 4.6 During the year, Internal Audit liaised with the Authority's external auditors, Mazars LLP. The objective was to maximise the benefit to the Authority from all audit work to avoid duplication of coverage and to learn from each other's findings to provide maximum assurance.

- 4.7 The achievement of audit plans depends upon the contribution of the Council's staff. Internal Audit would like to record its appreciation for the involvement and commitment of staff and for their critical appraisal of conclusions drawn and recommendations made.

5.0 SUMMARY OF AUDIT FINDINGS

- 5.1 The Appendix attached to the report sets out the opinion levels for those 2013/14 audits where such reports were made during 2014/15. The Appendix also comments on the position for the 2014/15 audits at the time of writing. In summary, the position is:-

	No of Audits/Reviews
Total referred to in Appendix	23
<u>Less</u>	
2013/14 brought forward audit no longer required (Craven Pool)	1
2014/15 audits ongoing (Resource Resilience)	1
Review of implementation of recommendations from previous audits – no opinion given (Treasury Management, Creditors, IS Review)	3
“Consultancy Work” (Information Governance)	1
	17
<u>Audits where opinion given</u>	
Analysed as:	
Significant	4
Good	8
Partial	5
No	--

- 5.2 This shows that of the 22 audits/reviews (excluding Craven Pool) referred to in the Appendix, 21 (95%) were completed at the time of writing. The exception was Resource Resilience and if appropriate a verbal update will be provided at the meeting. There is no provision in Craven's Internal Audit Plan for 2015/16 to complete 2014/15 audits. Therefore, any time spent on the 2014/15 audits from 1 April 2015 will not count against the days allocated for 2015/16.
- 5.3 Where audit opinions on the level of assurance have been provided, 71% (12 out of 17) were either “significant” or “good”. This is broadly similar to the position reported in the 2013/14 Annual Report (73%). On the annual audits of the major financial systems, it is pleasing to note that there has been further

improvements such that 9 of the 10 opinions given were either “significant” or “good”. The exception was the partial “opinion given” for the 2013/14 audit on Treasury Management. The conclusion from the 2015/16 review was that good progress was being made on the implementation of the recommendations.

- 5.4 Of the risk assessed systems, 3 of the reported opinion levels were “good”. This included the report on car parking although it did refer to weaknesses in the controls relating to cash collection. Internal Audit have been advised that these have now been remedied – a report confirming the position is to be submitted to the Committee later in the year. A “partial” opinion was given on the Museum/Gallery/TIC cash procedures audit. A subsequent review has confirmed that all the recommendations have now been implemented.
- 5.5 On IS, 2 audits from the 2013/14 Plan were reported in September – data protection and compliance with the Payment Card Industry (PCI) data standards. Both were awarded a partial level of assurance. The original intention for the 2014/15 audit was to undertake a strategic review. In the event this was not possible, due to the staff turnover in IS Management. Internal Audit therefore reviewed the validity and progress made on implementing outstanding audit recommendations as recorded on the performance management system (TEN). This helped to inform the action plan submitted by the then Interim ICT Shared Services Manager circulated to the Committee in November.
- 5.6 Internal audit reports are effectively public documents, unless they contain information which is considered to be exempt. Therefore, the agreed protocol is that the full audit reports, when finalised and including management comments, for those areas receiving a “partial” or “no” assurance level are submitted to the Audit and Governance Committee. It has become the custom and practice for all audit reports to be submitted to the Committee so that Members receive a comprehensive and balanced picture – covering both the areas where the Authority is performing relatively well and those where major improvements need to be made.

6.0 AUDIT DAYS PROVIDED

- 6.1 The Appendix compares the number of days allocated to the individual audits in the original plan for 2014/15 approved in June, to the Revised Plan approved in September and to the actual number of days spent during the year. The actual number of days spent was 251 i.e just over the planned 250 days.
- 6.2 The main reasons for the variations at the detailed level were:-

- Original to Revised Plans – reduction in the days for the Annual Audits due to a move to a more efficient, lighter touch approach where possible. This helped to release time to complete the audits from 2013/14 which was significantly under-estimated in the original plan.
- Revised Estimates to Actual – Transfer of time spent on “other audit work” (Planning Management and Audit Committee) to Harrogate in the overall interests of the Shared Service. This was to keep the total time within or only just above the planned provision of 250 days.

7.0 QUALITY ASSURANCE AND IMPROVEMENT

7.1 Under the PSIAS, the “chief audit executive” must develop a quality assurance and improvement programme (QUAIP). The objectives are to assess the efficiency and effectiveness of internal audit activity, identify opportunities for improvement and to evaluate whether or not the Standards are being met.

7.2 The QUAIP consists of:-

- Ongoing monitoring of the performance of internal audit
- Periodic self-assessments
- An external assessment which must be undertaken at least once in every 5 years

7.3 Ongoing Monitoring

7.3.1 There are management and supervision arrangements within Internal Audit in order to ensure that each audit assignment meets the required quality standards. These involve discussions between Audit Management and the individual Auditor concerned during the planning of the audit to ensure that key risks are covered, during fieldwork and at draft and final report stages. The purpose is to ensure that the engagement, evidence and reporting requirements set out in the PSIAS are met, together with the Code of Ethics. (Integrity, Objectivity, Confidentiality, Competency).

7.3.2 Following each applicable audit, Internal Audit send out a post audit questionnaire (PAQ) to the relevant Client Manager for feedback on the quality of the audit from the client perspective and on whether any improvements could be made. The PAQ asks 9 questions and provides for responses ranging from “very satisfied” to “very dissatisfied”. The latest results are summarised in the separate report attached to the agenda on the Annual Review of Effectiveness of Internal Audit. This shows that the

feedback is very positive – with 99% of responses being either very satisfied or satisfied.

7.3.3 Internal Audit Management also seeks informal feedback from senior management, including corporate management teams and Members.

7.3.4 Internal Audit also has various performance indicators which are monitored during the year. These include:-

Productivity -	Measured by chargeable time as a proportion of time in the office. Actual Performance for 2014/15 was 76% compared to a target of 80%. Additional time was required for the corporate initiatives at Harrogate.
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Sickness Monitoring -	The total level of sickness for the 6 members of the Team was only 2 days – well below average.
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Budget -	Actual expenditure was within budget for the year.
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7.4 External and Internal Assessments

7.4.1 In January 2014, the Committee approved the appointment of Mazars LLP, the Council's external auditors, to undertake an external assessment of Internal Audit. This was completed during April 2014.

7.4.2 The overall conclusion was that Internal Audit is "substantially compliant" with the PSIAS. The report did identify one significant weakness where Internal Audit and the Council did not comply with the PSIAS – specifically on the annual review of effectiveness of the Council's internal audit which has been addressed. (This annual review was a requirement of the 2011 Accounts and Audit Regulations. However, the 2011 Regulations have now been replaced by the 2015 Regulations which took effect from 1 April 2015. Under the latest Regulations the annual review of the effectiveness of internal audit is replaced by an annual review of the effectiveness of the system of internal control).

7.4.3 The external assessment also recommended a number of improvement actions. Progress on these has been reported to Members during the year. The separate report on the effectiveness of Internal Audit for 2014/15 contains an up to date position. The overall conclusion is that good progress continues to be made – although there has been some slippage.

8.0 COMPLIANCE WITH THE PSIAS

- 8.1 As noted above, the overall conclusion from the external assessment is that Internal Audit is substantially compliant with the PSIAS.
- 8.2 Members are referred to the separate report attached to the agenda, which sets out the current position on implementing the improvement actions.
- 8.3 Internal Audit has had unrestricted access to all areas and systems across the Authority and has received appropriate cooperation from Officers and Members.

9.0 AUDIT OPINION

- 9.1 Under the PSIAS, I am required to give an overall opinion on the adequacy and effectiveness of the Council's risk management and governance arrangements and on its internal controls.
- 9.2 The overall opinion is that:-

Risk Management: The Council has adequate arrangements in place with risk management being embedded within the Authority. This is based on Internal Audit's experience and observation of proceedings at the Risk Management Group – together with a review of the Risk Management Strategy and risk registers (both corporate and specific e.g Tour de France, Skipton Town Hall refurbishment, Health and Safety). There is also robust challenge by Members when risk registers are submitted to the Audit and Governance Committee for consideration and approval. This Committee has appointed its Independent Member to be its representative on the Risk Management Group as risk management forms part of his professional responsibilities in his day job. His remit is to report back to the Committee in due course on whether there is scope for improving effectiveness of the Council's arrangements.

Governance: This concerns the combination of protocols, procedures and structures in place to inform, direct, manage and monitor activities towards the achievement of the Council's objectives. The opinion is that generally speaking, adequate and effective arrangements are in place. The Annual Governance Statement sets out those arrangements and I can confirm that these are comprehensive.

The area of concern remains IT and information governance. The 2013/14 audits on data protection and PCI Compliance were both awarded partial levels of assurance. The proposed strategic review could not be undertaken

due to resilience issues in IT as a result of a high staff turnover. Interim management arrangements were put in place with the appointment of an Interim Manager but she has also left the Authority. The post of IT and Transformation Manager is at advert at the time of writing – but gaps in resources and numerous changes in staff at the IS management level must have a negative impact on the effectiveness of its governance.

Internal Control: Generally, fundamentally sound systems of internal control are in place. Over 70% of the opinions issued were either “significant” or “good” (refer to paragraph 5.1). In other areas, progress continues to be made.

This opinion aligns with that of the external auditors, Mazars LLP. In the Completion Report covering the audit of the 2013/14 accounts which was reported in September, Mazars did not identify any significant deficiencies in internal control, although they did mention the weakness relating to the cash income from car parking referred to above.

10.0 IMPLICATIONS

- 10.1 **Financial and Value for Money:** The contribution paid by Craven towards the cost of the Shared Service for 2014/15 was just over £57,000.
- 10.2 **Legal:** This report is submitted to comply with the requirements of the Public Sector Internal Audit Standards.
- 10.3 **Contribution to Council priorities:** Council transformation.
- 10.4 **Risk Management:** The internal audit function is an integral part of internal control. The major risks to the provision of the service to Craven include:-
- Insufficient resilience, resources and capacity – for example due to long-term sickness or vacant posts arising. If the situation arises, it will be addressed by the Internal Audit Shared Service Partnership Board, reporting to the respective audit committees of the two Councils if necessary.
 - The need for a major investigation which will mean that some planned work will have to be deferred or an increase in the days provided at an additional cost to Craven.

10.5 Equality Impact Assessment

The Council's Equality Impact Assessment Procedure has been followed. An Equality Impact Assessment has not been completed on the proposals as completion of Stage 1 – Initial Screening of the Procedure identified that the proposed policy, strategy, procedure or function does not have the potential to cause negative impact or discriminate against different groups in the community based on age, disability, gender, race/ethnicity, religion or religious belief (faith), sexual orientation or rural isolation.

11.0 CONSULTATION WITH OTHERS

Corporate Leadership Team, Strategic Manager – Finance Services (S151 Officer).

12.0 ACCESS TO INFORMATION: BACKGROUND DOCUMENTS

None.

13.0 AUTHOR OF THE REPORT

Martin Helm, Audit Manager, Craven District Council and Harrogate Borough Council Shared Internal Audit Service.

Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions. (Telephone 01423 556114, email martin.helm@harrogate.gov.uk)

14.0 APPENDICES

Appendix 1 – Internal Audit Plan 2014/15

APPENDIX 1

INTERNAL AUDIT PLAN 2014/15

	Approved Plan (June) (Days)	Revised Plan (Sept) (Days)	Actuals April – March (Days)	Comments
Annual Audits				
Benefits	25	17	17	Completed. See separate report on agenda. "Significant" assurance.
Procurement/Creditor Spend Reviews	10	10	13	Completed. Reported in January. "Partial" assurance.
Treasury Management	5	8	5	Completed. Reported in March. Reviewed implementation of recommendations from previous audit.
Council Tax/Business Rates	20	10	10	Completed. See separate report. "Good" assurance.
Payroll	15	9	10	Completed. See separate report on agenda. "Significant" assurance.
Debtors	10	11	13	Completed. Reported in March. "Good" assurance.
Creditors	10	5	10	Completed. Reported in March. Reviewed recommendations from previous audit.
	95	70	78	

	Approved Plan (June) (Days)	Revised Plan (Sept) (Days)	Actuals April – March (Days)	Comments
Risk Assessed Systems				
Officer Expenses	10	10	13	Completed. Reported in November. "Good" assurance.
Resource Resilience	30	25	10	Ongoing.
Information Governance	10	15	21	Completed. Reviewed documentation to establish governance standards.
Car Parking	15	15	31	Completed. Reported in January. "Good" assurance.
Museum/Gallery/TIC	10	5	4	Completed. Reported in November. "Partial" assurance.
	75	70	79	
IS				
Strategic Review	25	10	14	Completed. Reported in November. Due to resource issues in IS scope, changed to 'reviewing outstanding recommendations'.
	25	10	14	

	Approved Plan (June) (Days)	Revised Plan (Sept) (Days)	Actuals April – March (Days)	Comments
Contingency Etc				
Audits brought forward from 2013/14	9	67	66	See Note 1
Contingency	24	11	14	See Note 2
	33	78	80	
Other Audit Work				
Planning/Management	17	17	--) Actual time transferred to) Harrogate in the overall) interests of the Shared) Service Collaboration
Audit Committee	5	5	--	
	22	22	--	
TOTAL	250	250	251	

1. Audits brought forward from 2013/14

A breakdown of the figures is:

	Approved Plan (June) (Days)	Revised Plan (Sept) (Days)	Actuals April – March (Days)	Comments
Treasury Management	1	2	2	Reported to A&G Committee in June. “Partial” assurance level.
Debtors	1	4	4	Reported to A & G in June. “Good” assurance level.
Mechanics Workshop	6	6	7	Reported to A&G in January. “Good” assurance level.
Craven Pool	1	--	--	No longer required. Reported to A&G in June. “Significant” assurance level.
Benefits	--	4	4	
Council Tax/Business Rates	--	15	15	Reported to A&G in June. “Good” assurance level.
Payroll	--	6	6	Reported to A&G Committee in June. “Significant” level of assurance.
Creditors	--	30	28	Reported to A&G Committee in September. “Good” assurance level.
	9	67	66	

2. Contingency

A breakdown of the figures is:

	Approved Plan (June) (Days)	Revised Plan (Sept) (Days)	Actuals April – March (Days)	Comments
Annual Provision	24			
Completing IS Audits b/fwd from 2013/14				
PCI Data Standards		4	5	Reported to A&G in September, "Partial" assurance.
Data Protection		6	7	Reported to A&G in September, "Partial" assurance.
Other		1	2	
	24	11	14	

3 Assurance Levels

The definitions are:-

Level	Definition
Significant Level of Assurance	The system of internal control is designed to support the Council's corporate and service objectives and controls are consistently applied in all areas reviewed.
Good Level of Assurance	There is generally a sound system of control designed to support the Council's corporate and service objectives. However, some improvements to the design or application of controls is required.
Partial Level of Assurance	Weaknesses are identified in the design or inconsistent application of controls which put the achievement of some of the Council's corporate and service objectives at risk in the areas reviewed.
No Level of Assurance	There are weaknesses in control, or consistent non-compliance which places

corporate and service objectives at risk in the areas reviewed.