

For publication

INTERNAL AUDIT CONSORTIUM ANNUAL REPORT
2015/2016

Meeting:	Standards and Audit Committee
Date:	22 nd June 2016
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

For publication

1.0 Purpose of report

1.1 The purpose of this report is to:-

- Present a summary of the internal work undertaken during 2015/16 from which the opinion on the internal control environment is derived.
- Provide an opinion on the overall adequacy and effectiveness of the Council's control environment including any qualifications to that opinion.
- Draw attention to any issues that need to be considered for inclusion in the Annual Governance Statement.
- Compare work actually undertaken with that which was planned and summarise performance.
- Comment on compliance with the Public Sector Internal Audit Standards (PSIAS).
- Confirm progress against the Internal Audit Improvement Plan and to present the new improvement plan.
- Comment on the results of the quality assurance programme.
- Confirm the organisational independence of internal audit
- Review the performance of the Internal Audit Consortium against the current Internal Audit Charter.

2.0 Recommendations

- 2.1 That the Internal Audit Consortium Annual Report for 2015/16 be accepted.
- 2.2 That Members note that the issue of implementing internal audit recommendations in a timely fashion has been raised at CMT and measures discussed to improve the situation.

3.0 Report details

SUMMARY OF WORK UNDERTAKEN

- 3.1 Appendix A details the audit reports issued in respect of audits included in the 2015/16 internal audit plan. The appendix shows for each report the overall opinion on the reliability of the internal controls and the opinion given at the last audit. The report opinions can be summarised as follows:

Control Level	Number of Reports	Percentage 2015/16	Percentage 2014/15
Good	9	28.1	40.0
Satisfactory	18	56.3	34.3
Marginal	3	9.4	22.8
Unsatisfactory	2	6.2	2.9
Unsound	0	0	0
	32	100.0	100.0

- 3.2 A definition of the above control levels is shown in Appendix A.
- 3.3 There were no issues relating to fraud arising from the reports detailed in Appendix A.

3.4 The following table summarises the performance indicators for the Internal Audit Consortium as detailed in the Internal Audit Service Plan:

Description	2015/16		2016/17
	Plan	Actual	Plan
Cost per Audit Day	£279	£237 (1)	£286
Percentage of Plan Completed	96%	100%	96%
Sickness Absence (Average Days per Employee)	8.5 (Corporate Target)	11(2)	8.5 (Corporate Target)
Customer Satisfaction Score (see para 11 below)	80%	89%	85%
To issue internal audit reports within 10 days of the close out meeting	90%	100%	90%
Number/proportion of audits completed within time allocation	80%	79%	80%
% 2015/16 Agreed recommendations implemented by due date	100%	68% (3)	80%
Quarterly reporting to Standards and Audit Committee	100%	100%	100%

- (1) The Consortium operated without a Deputy Head of Internal Audit in 2015/16. A new structure is now in place.
- (2) Due predominantly to 1 long term sickness case, the employee has now returned to work.
- (3) The Internal Audit Consortium's improvement plan at Appendix C details how efforts will be made to try and improve this figure by the Internal Audit Consortium Manager however Managers also need to ensure that they are implementing agreed recommendations in a timely manner.

OPINION ON THE ADEQUACY AND EFFECTIVENESS OF THE CONTROL ENVIRONMENT

- 3.5 In respect of the main financial systems, Appendix A demonstrates that internal controls were generally found to be operating satisfactorily or well giving an overall confidence in the internal control system operating in relation to these systems.
- 3.6 Overall, 84.4 % of the areas audited received a good or satisfactory opinion demonstrating that in the main there are effective systems of governance, risk management and control in place. This is an improved position on the 2014/15 year when 74.3% of areas were classed as good or satisfactory.
- 3.7 There were 2 unsatisfactory reports issued during the year in relation to data protection and non - housing property repairs. Recommendations remain outstanding in respect of both of these audits and they have been raised as significant issues within the annual governance statement. More resource will be available to action the data protection recommendations once the new post of Information Assurance Officer has been filled. The non – housing property repairs issues are currently being addressed by senior management.
- 3.8 A further 3 reports were classed as marginal (council tax, car parks and procurement) the recommendations made have been agreed and are in the process of being implemented.
- 3.9 Performance management procedures are in place to ensure that CMT receive regular reports in relation to outstanding audit recommendations in order that appropriate action can be taken. This report has been presented to CMT and it was agreed that managers will be held to account where recommendations remain outstanding. Where sufficient progress has not been made in respect of implementing high priority recommendations, managers attendance at the Standards and Audit Committee may be required to explain the reasons for delay.

ISSUES FOR INCLUSION IN THE ANNUAL GOVERNANCE STATEMENT

3.10 The internal control issues arising from audits completed in the year have been considered during the preparation of the Annual Governance Statement. The issues surrounding data protection, non-housing property repairs and procurement practices have all been raised as significant governance issues within the annual governance statement. In addition to this, audit concerns relating to IT provision and security raised in 2014/15 have not been fully addressed and management have identified further areas for improvement so this has also been raised again.

COMPARISON OF PLANNED WORK TO ACTUAL WORK UNDERTAKEN

3.11 The Internal Audit Plan for 2015/16 was approved by the Standards and Audit Committee on the 10th April 2015. A comparison of planned audits with audits completed is shown as Appendix B. 100% of planned audits in respect of the internal audit plan were completed during the year.

COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND OTHER QUALITY ASSURANCE RESULTS

3.12 During 2015/16 a self- assessment was undertaken to review compliance with the Public Sector Internal Audit Standards. The review confirmed that there were no significant areas of non- compliance

3.13 Progress against the last improvement plan was reported to this Committee in June 2015. With the exception of the external review of internal audit and ongoing targets that improvement plan has been completed. Appendix C shows the new improvement plan for the Consortium that will ensure the service continually moves forward and develops.

3.14 It can also be confirmed that the internal audit activity is organisationally independent. Internal audit reports directly to the Head of Finance but has a direct and unrestricted

access to the Corporate Leadership Team and the Standards and Audit Committee.

3.15 Quality control procedures have been established within the internal audit consortium as follows:

- Individual Audit Reviews – Working papers and reports are all subject to independent review to ensure that the audit tests undertaken are appropriate, evidenced and the correct conclusions drawn. All reports are reviewed to ensure that they are consistent with working papers and in layout. Whilst these reviews may identify issues for clarification, the overall conclusion of the quality assurance checks is that work is being completed and documented thoroughly.
- Customer Satisfaction – A Customer Satisfaction Survey form is issued with each report. This form seeks the views of the recipient on how the audit was conducted, the report and recommendations made.
- Client Officer Views – A survey form has been issued to the client officer seeking his views on the overall performance of the Internal Audit Consortium for the year in achieving the objectives set out in the Internal Audit Charter.
- All staff have been provided with a copy of the Public Sector Internal Audit Standards and the Internal Audit Manual has been updated to reflect the requirements of the standards and issued to all staff.

3.16 The above quality control procedures have ensured conformance with the PSIAS.

3.17 Based on the customer satisfaction survey forms returned, the average score was 89% for customer satisfaction during 2015/16 (2014/15 result 92%).

3.18 The results of the Client Officer survey for Chesterfield was a score of 100% (35 out of a maximum of 35 - for the seven areas reviewed this represented 7 'very good' scores).

REVIEW OF PERFORMANCE OF THE INTERNAL AUDIT CONSORTIUM AGAINST THE CURRENT INTERNAL AUDIT CHARTER

3.19 The Audit Charter was last reported to and approved by the Audit and Standards Committee in September 2015 and is also scheduled for approval elsewhere on this meeting's agenda as it has been updated to reflect the April 2016 updates to the Public Sector Internal Audit Standards.

3.20 Based on the information provided in this report on the completion of the 2015/16 internal audit plan, it is considered that the requirements of the Charter were met during the year.

4 Human resources/people management implications

4.1 There are no human resources implications.

5 Financial implications

5.1 There are no financial implications

6 Legal and data protection implications

6.1 There are no legal or data protection implications.

7 Consultation

7.1 Not Applicable.

8 Risk management

8.1 This report ensures that Members are aware of the work undertaken by internal audit during 2015/16 and their

opinion on the adequacy and effectiveness of the systems in place at Chesterfield Borough Council.

9 Equalities Impact Assessment (EIA)

9.1 Not Applicable.

10 Alternative options and reasons for rejection

10.1 Not Applicable.

11 Recommendations

11.1 That the Internal Audit Consortium Annual Report for 2015/16 be accepted.

11.2 That Members note that the issue of implementing internal audit recommendations in a timely fashion has been raised at CMT and measures discussed to improve the situation.

12 Reasons for recommendations

12.1 To present to Members the annual report for the Internal Audit Consortium in respect of Chesterfield Borough Council for 2015/16.

12.2 To ensure compliance with the Public Sector Internal Audit Standards.

12.3 To provide an opinion on the overall adequacy and effectiveness of the Council's control environment including any qualifications to that opinion.

Decision information

Key decision number	
Wards affected	All
Links to Council Plan priorities	Internal audit work aids in the Council's priority to provide value for money.

Document information

Report author	Contact number/email
Jenny Williams Internal Audit Consortium Manager	01246 345468 Jenny.williams@chesterfield.gov.uk
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
Appendices to the report	
Appendix A	Internal Audit Reports Issued 2015/16
Appendix B	Comparison of planned Audits to Audit Completed 2015/16
Appendix C	Internal Audit Consortium Improvement Plan

Appendix A

Chesterfield Borough Council – Internal Audit Reports Issued 2015/16

Ref	Report Title	Overall Opinion	
		2015/16	Previous Audit
1	Data Protection	Unsatisfactory	Marginal
2	Freedom of Information	Satisfactory	Marginal
3	Crematorium Income	Satisfactory	Satisfactory
4	Refuse Collection Contract	Satisfactory	Good
5	Non Housing Property Repairs	Unsatisfactory	Marginal
6	Council Tax	Marginal	Marginal
7	VAT	Satisfactory	Satisfactory
8	Markets	Satisfactory	Marginal
9	BCN Consultancy Income	Good	Good
10	Bank Reconciliation	Satisfactory	Good
11	C & D Book Independent Checks	Satisfactory	Good
12	Cash and Banking	Good	Good
13	Gas Servicing	Satisfactory	Good
14	Non Domestic Rates	Good	Satisfactory
15	Investment Portfolio	Good	Good
16	Loans	Good	Good
17	Business Continuity and Emergency Planning	Satisfactory	N/A
18	Housing Benefits/Council Tax Support System	Good	Good
19	Accounts Payable	Satisfactory	Good
20	IT Security	Satisfactory	Marginal
21	Venues	Satisfactory	Satisfactory
22	Payroll	Satisfactory	Satisfactory
23	Housing Repairs Capital	Good	Satisfactory
24	Elections	Satisfactory	N/A
25	Housing Rents	Satisfactory	Satisfactory
26	Accounts Receivable	Good	Good
27	Car parks	Marginal	Satisfactory
28	Housing Repairs Responsive	Satisfactory	Satisfactory
29	Stores	Satisfactory	
30	Main Accounting and Budgetary Control	Good	Good
31	Corporate Credit Cards	Satisfactory	Satisfactory
32	Procurement	Marginal	Unsatisfactory

Internal Audit Report Opinion Definitions

Control Level	Definition
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

INTERNAL AUDIT CONSORTIUM**CHESTERFIELD BOROUGH COUNCIL****Comparison of Planned Audits to Audits Completed 2015/16**

Main Financial Systems – Planned Audits	Progress as at 31st March 2016
Main Accounting System (Incl Budgetary Control)	Completed
Bank Reconciliation	Completed
Payroll	Completed
Creditor Payments (Accounts Payable)	Completed
Debtors	Completed
Treasury Management (Loans)	Completed
Investment Portfolio	Completed
Cash and Banking	Completed
Council Tax	Completed
Non Domestic Rates	Completed
Housing / Council Tax Benefit	Completed
Housing Rents	Completed
Housing Repairs – Capital	Completed
Housing Repairs - Responsive	Completed

Other Operational Audits – Planned Audits	Progress as at 31st March 2016
Building Control Fees	Completed
Business Continuity Planning	Completed
Car Parks Income	Completed
Contract Final Accounts	Completed
Elections	Completed
Gas Servicing	Completed
Joint Crematorium	Completed
Markets Income	Completed
Pomegranate Theatre	Completed
PPP Client Monitoring Procedures	Ongoing
Property Repairs Non-Housing	Completed
Refuse Collection – Domestic	Completed
Stores	Completed
VAT Procedures	Completed
Winding Wheel	Completed

Computer / IT Related	Progress as at 31st March 2016
Network Security	Completed
Data Protection/FOI	Completed

Corporate / Cross Cutting Issues – Planned Audits	Progress as at 31st March 2016
Annual Governance Statement	Completed
Procurement	In Progress
Birmingham Parish Council	Completed
Financial Advice / Working Groups	On going

Location / Regularity	Progress as at 31st March 2016
Cash Floats	Completed

Special Investigations / Contingency	As required
---	-------------

Audit Committee / Client Liaison	On going
---	----------

Internal Audit Consortium Improvement Plan April 2016

Improvement Area	Current Situation	Action Required	Implementation Date / Officer Responsible
PSIAS requires an external assessment of internal audit to be undertaken at least once every 5 years with the first one being due by the end March 2018	Budget has been agreed by Joint Board. Consultation has taken place with the Audit Committees in relation to the review (April 2016).	<ul style="list-style-type: none"> a) To agree a specification for the review with the project Sponsors (Head of Finance, Director of Operations, Head of Resources) b) To advertise the contract on source Derbyshire via the Royal Hospital Procurement Service c) To assess quotations and appoint a reviewer d) To facilitate the review e) To present the findings to each audit Committee f) To implement the resulting action plan 	<p>Internal Audit Consortium Manager April/May 2016</p> <p>May/June 2016</p> <p>June/July 2016</p> <p>August – Dec 16 December 2016</p> <p>To be agreed when review is completed</p>

Improvement Area	Current Situation	Action Required	Implementation Date / Officer Responsible
<p>The Standards state that Internal Auditors are encouraged to demonstrate their proficiency by obtaining professional certifications.</p> <p>The skills and competencies required by each level of Auditor should be defined and continuous professional development should be in place</p>	<p>Two Auditors are studying for AAT and one Auditor is studying for CIPFA. All other Seniors/Auditors have their AAT qualification and one senior Auditor has the IIA qualification as well. The Internal Audit Consortium Manager is CIPFA qualified. The last training needs assessment was undertaken in June 2013, since then one part time Auditor has been appointed and another temporary Auditor. Training is assessed each year as part of the EPD process.</p>	<p>The training needs assessment should be reviewed and updated. This should take account of the new Auditors needs and also the continuous professional development needs of the rest of the team. This will be aligned with employee development reviews that are taking place in April/May 2016.</p>	<p>Internal Audit Consortium Manager</p> <p>June 2016</p>

Improvement Area	Current Situation	Action Required	Implementation Date / Officer Responsible
<p>The policy states that policies and procedures should be regularly reviewed and updated to reflect changes in working practices and standards</p>	<p>Procedures and working practices have been fully reviewed as part of the review of the structure and job descriptions in 2015. A new structure was implemented from December 2015</p> <p>Test schedules are reviewed at the start of each audit but there is scope to review more fully in the light of risk, governance and VFM.</p>	<p>To ensure that the revised structure is effective and meets the needs of the constituent Council's</p> <p>Review the audit Charter and Audit Manual in relation to the revised PSIAS that came in to effect from April 2016</p> <p>To review the test schedules for the main financial system to ensure still fully relevant and risk based.</p> <p>To review other test schedules to ensure they still focus on key risk and governance areas.</p> <p>To develop test schedules for Safeguarding, Social Media, BACS</p>	<p>Internal Audit Consortium Manager Ongoing</p> <p>Internal Audit Consortium Manager April – June 2016</p> <p>Senior Auditors March 2017 And ongoing process</p> <p>Internal Audit Consortium Manager Ongoing process</p> <p>Internal Audit Consortium Manager/ Senior Auditors June - December 2016</p>

Improvement Area	Current Situation	Action Required	Implementation Date / Officer Responsible
<p>The standards ask if the internal audit activity has evaluated the potential for fraud and also how the organisation itself manages fraud risk</p>	<p>The IAC has developed a fraud risk register. The “Protecting the public purse” checklist has been completed and any identified weaknesses addressed. The Audit Commission’s fraud modules are completed whilst undertaking main system reviews Participation in NFI Completion of the annual TEICCAF (The European Institute for combatting Corruption and Fraud) fraud survey. Attendance at the TEICCAF Annual fraud conference</p>	<p>To review each Council’s arrangements against the checklist attached to the Fighting Fraud and Corruption Locally Strategy 2016 – 19</p> <p>Complete Checklist Formulate an action plan if required Report to Audit Committees Implement action plan</p>	<p>Internal Audit Consortium Manager/ Head of Finance/ Director of Operations/ Head of Resources</p> <p>June/July 2016 June/July 2016 September 2016 July onwards</p>

Improvement Area	Current Situation	Action Required	Implementation Date / Officer Responsible
<p>The Standards state that the internal audit activity should assess and make appropriate recommendations for improving the governance process.</p>	<p>The Internal Audit Consortium Manager writes the AGS for CBC and is part of an AGS working party for NEDDC/BDC. This involves a review of the CIPFA assurances and liaison with senior management. In April 2016 CIPFA have published “Delivering Good Governance in Local Government Framework 2016”</p>	<p>To review CIPFA’s 2016/17 Delivering Good Governance publication and review each Council’s compliance with this.</p>	<p>Internal Audit Consortium Manager Review summer 2016 implement for 2016/17 AGS</p>

Improvement Area	Current Situation	Action Required	Implementation Date / Officer Responsible
<p>The Standards require that the Head of Audit establish a process to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action</p>	<p>A system has been established for flagging recommendations that have not been confirmed as implemented at CMT/Quarterly directorate meetings. However the target PI for the % of recommendations implemented by their due date was not reached for the 2015/16 year.</p>	<p>The Internal Audit Consortium Manager/Senior Auditors need to establish a more pro-active approach to contacting managers to ensure that recommendations are confirmed as implemented promptly and if not escalating as appropriate</p>	<p>Internal Audit Consortium Manager/Senior Auditors</p> <p>Ongoing</p>