

For publication

INTERNAL AUDIT CONSORTIUM – ANNUAL REPORT 2015/16

Meeting: Joint Board

Date: 12 September 2016

Report by: Internal Audit Consortium Manager

For publication

1.0 Purpose of report

1.1 To report on the performance of the Internal Audit Consortium during 2015/16.

2.0 Recommendations

2.1 That the annual report of the Internal Audit Consortium be approved.

3.0 Report details

BACKGROUND

3.1 The Internal Audit Consortium came into operation on the 1st April 2007. Chesterfield Borough Council, Bolsover District Council and North East Derbyshire District Council are full members of the Internal Audit Consortium and in addition to this the Internal Audit Consortium provides a management role in respect of Derbyshire Dales District Council's internal audit function.

3.2 The Public Sector Internal Audit Standards, require that a detailed annual report should be prepared. Detailed reports on the performance against the Audit Plans for each constituent authority have already been presented to each council's respective Audit Committee.

Performance in 2015/16

Internal Audit Plans

- 3.3 Internal Audit Plans were established and agreed for each authority before the start of the financial year. The plans were fully completed for 2015/16 and this was reported to each audit committee in May/June 2016.
- 3.4 Regular progress reports were submitted to each audit committee summarising internal audit reports issued.

Working Procedures / Improvement plan

- 3.5 Progress has continued in addressing a number of service improvements, for example:
- Testing schedules are continually being reviewed and updated as each audit is undertaken to ensure that key controls and risks are addressed.
 - The Internal Audit Charter and working practices manual have been updated
 - A training needs assessment has been undertaken
 - The new staffing structure is being embedded
 - A self -assessment of compliance with the Public Sector Internal Audit Standards was completed in January 2016 and the review did not identify any significant areas of non- compliance. However an improvement plan has been formulated (**Appendix C**) to ensure that the service continually develops.

Performance Targets

- 3.6 The results of the performance targets measured in 2015/16 are shown in the table below.

Description	2015/16	
	Plan	Actual
Cost per Audit Day	£279	£237 (1)
Percentage of Plan Completed	96%	100%
Sickness Absence (Average Days per Employee)	8.5 (Corporate	11 (2)

	Target)	
Customer Satisfaction Score	80%	92%
To issue internal audit reports within 10 days of close out meeting	90%	99%
Number/proportion of audits completed within time allocation	80%	75%
% 2015/16 Agreed recommendations implemented by due date	80% (NEDDC and BDC, 100% CBC)	68% (3)
Quarterly reporting to Standards and Audit Committee	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. The Corporate Management Team at each Council is closely monitoring the implementation of audit recommendations.

Financial performance

3.7 The original budgets and charges for 2015/16 were agreed by the Joint Board on the 16th March 2015 and subsequently revised on the 14th March 2016. The revised budget for 2015/16 showed an estimated surplus for the year of £47,970 plus a brought forward balance of £50,000.

3.8 The outturn for the year shows a surplus of £63,041 plus a brought forward balance of £50,000. **Appendix A** provides a comparison of the budget and outturn figures. The main reason for the surplus was the saving on the Deputy Head of Internal Audit post.

3.9 At its meeting on the 14th March 2016 Joint Board agreed that :

- The accumulated surplus less £20,000 be distributed to the partner authorities
- That £20,000 be held as a working balance

3.10 This has resulted in the following distribution:

	£
Surplus at 31 st March 2016	113,041
Less Balance carried forward	<u>20,000</u>
	<u>93,041</u>
Distribution:	
Chesterfield (36.6%)	34,053
North East Derbyshire DC (31.8%)	29,587
Bolsover DC (31.6%)	<u>29,401</u>
	<u>93,041</u>

Staffing

- 3.11 The restructure of the Internal Audit Consortium has been completed and the new structure became operational on the 1st December 2015.
- 3.12 The Interim Head of Audit has now been appointed as the Internal Audit Consortium Manager effective from the 1st January 2016.
- 3.13 The Consortium operated in 2015/16 with 8.64 FTE posts although the budget was prepared on the basis of 9.64 FTE as it included the salary for both the Head and Deputy Head of internal audit.
- 3.14 The revised staffing structure has an establishment of 9.1 FTE posts however at this time there is a vacant 0.5 post.
- 3.15 1 full time auditor is still on secondment to Accountancy and their post is being covered by a temporary Auditor.

Training

- 3.16 A full training needs assessment has been undertaken following employee personal development reviews and a training and development plan formulated.
- 3.17 Training consists of a combination of formal qualifications, CPD activities/courses, internal courses, team meeting updates/information sharing , reading relevant articles and on the job training.

Future Developments

3.18 The Public Sector Internal Audit Standards that came in to effect in April 2013 require that an external review of internal audit takes place at least every 5 years. The external review of internal audit has been tendered for and will be undertaken by a company called Gateway Assure in October 2016. The results of the review will be fed back to each Audit Committee.

Risk register

3.19 The Internal Audit Consortium risk register has been updated and is shown as **Appendix B**.

4 Human resources/people management implications

4.1 Not Applicable.

5 Financial implications

5.1 The Internal Audit Consortium operated under budget during 2015/16 which has resulted in a repayment to each of the partner authorities.

6 Legal and data protection implications

6.1 None.

7 Consultation

7.1 Not Applicable.

8 Risk management

8.1 The production of an annual report enables Joint Board to assess if the Internal Audit Consortium is providing an effective value for money service.

8.2 The provision of an effective Internal Audit service helps to ensure that the organisations internal controls and governance arrangements are appropriately assessed in terms of their adequacy and effectiveness.

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 annual report of the Internal Audit Consortium be approved.

12 Reasons for recommendations

12.1 To enable the Joint Board to consider and approve the 2015/16 Annual Report of the Internal Audit Consortium.

Decision information

Key decision number	NA
Wards affected	All
Links to Council Plan priorities	An effective internal audit service helps towards the Council's priority of providing VFM

Document information

Report author	Contact number/email
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Appendices to the report	
Appendix A	Internal Audit Consortium Budget and Actual - 2015/16 and Estimate 2016/17
Appendix B	Internal Audit Consortium Risk Register
Appendix C	Internal Audit Consortium Improvement Plan

Appendix A

**INTERNAL AUDIT CONSORTIUM BUDGET & ACTUAL - 2015/16
AND ESTIMATE 2016/17**

	2015/16			2016/17
	Original £	Revised £	Actual £	Estimate £
<u>Expenditure:</u>				
Employees	370,090	314,860	306,286	355,760
Transport	3,150	3,150	2,126	3,150
Supplies	1,930	7,930	2,568	26,540
Support Services	50,730	52,090	51,979	52,420
Total Expenditure	425,900	378,030	362,959	437,870
<u>Income:</u>				
Charges to CBC	152,210	152,210	152,210	154,180
Charges to NEDDC	132,230	132,230	132,230	134,600
Charges to Bolsover	131,410	131,410	131,410	133,790
Charges – other	350	450	450	500
Charges to DDDC	9,700	9,700	9,700	14,800
Total Income	425,900	426,000	426,000	437,870
Net surplus/(deficit) in year	0	47,970	63,041	0
Net surplus/(deficit) b/fwd	50,000	50,000	50,000	20,000
Net surplus/(deficit) c/fwd	50,000	97,970	113,041	20,000
Less surplus to be distributed		77,970	93,041	0
Working Balance Carried Forward	50,000	20,000	20,000	20,000

Appendix B

Total Risk Score: Likelihood x Impact. Rating Key:

0-4 Green	5-14 Amber	15+ Red
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CAUSE	EFFECT	ACTIONS UNDERTAKEN TO MITIGATE THE RISK	CURRENT RISK RATING LIKELIHOOD /RISK IMPACT	FURTHER ACTION REQUIRED/DATE	TARGET RISK RATING LIKELIHOOD /RISK IMPACT/DATE	RISK LEAD
Failure to substantially complete the agreed audit plans	Head of audit can't give an opinion on the controls in place which may lead to external audit undertaking more work or qualified accounts	Quarterly monitoring and reporting of progress to client officers and Audit Committees	Unlikely/High $2 \times 4 = 8$ Amber	Request to vacancy control panel to fill 0.5 vacant post if necessary	Highly Unlikely/High $1 \times 4 = 4$ Green	Internal Audit Consortium Manager
IA -Failure to undertake work to a satisfactory standard	External audit and section 151 officers can't place reliance on work	All work subject to quality reviews by senior staff. Review of compliance with PSIAS	Unlikely/Medium $2 \times 3 = 6$ Amber	No	Unlikely/Medium $2 \times 3 = 6$ Amber	Internal Audit Consortium Manager
IA - Insufficient financial resources to fund consortium	Cannot achieve plans	Joint Board approved the Consortiums budget March 16 for 2016.17	Unlikely/High $2 \times 4 = 8$ Amber	No	Unlikely/High $2 \times 4 = 8$ Amber	Internal Audit Consortium Manager

Loss of data through IT failure	Loss of work	Data stored on each Councils network and subject to their back up and security procedures.	Unlikely/Medium 2 x 3 = 6 Amber	No	Unlikely/Medium 2 x 3 = 6 Amber	Internal Audit Consortium Manager
Failure to have the required external review of internal audit by the March 2018 deadline	Non- compliance with PSIAS requirements	Procurement of an external reviewer has been undertaken	Unlikely/Medium 2 x 3 = 6 Amber	External review is scheduled for October 2016	Highly Unlikely/Medium 1 x 3 = 3 Green	Internal Audit Consortium Manager
Risk that the external review of internal audit highlights major weaknesses or shortcomings within the Internal Audit Consortium	Loss of confidence in the Internal Audit Consortium and the Council's governance arrangements.	The Internal Audit Consortium has well established procedures in place and has undertaken a self- assessment against the Standards which did not identify any significant shortcomings	Unlikely/Medium 2 x 3 = 6 Amber	Action plan to be put in place to address any weaknesses identified by the external review	Highly Unlikely/Medium 1 x 3 = 3 Green	Internal Audit Consortium Manager

Internal Audit Consortium Improvement Plan April 2016 (Updated July 16)

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 (Completed)</p> <p>May/June 2016 (Completed)</p> <p>June/July 2016 (Completed)</p> <p>August – Dec 16 (Review scheduled to take place October 2016)</p> <p>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> <p>(Completed)</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 (Completed)</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 Test Schedules developed – audits to be carried out in 16/17</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</p> <p>Formulate an action plan if required</p> <p>Report to Audit Committees</p> <p>Implement action plan</p>	<p>Internal Audit Consortium Manager/ Head of Finance/ Director of Operations/ Head of Resources (In Progress)</p> <p>June/July 2016 (In Progress)</p> <p>June/July 2016 (In Progress)</p> <p>September 2016 (On Track)</p> <p>July onwards (On Track)</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 (In Progress)</p>
<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 Ongoing</p>

