

**For publication**

**Internal Audit Consortium Annual Report 2017/18**

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Meeting: Standards and Audit Committee

Date: 23 May 2018

Cabinet portfolio: Cabinet Member for Governance

Report by: Internal Audit Consortium Manager

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**1.0 Purpose of report**

1.1 The purpose of this report is to:-

- Present a summary of the internal work undertaken during 2017/18 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 action plan that was developed following an external review of internal audit.

- Comment on the results of the internal 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 Recommendation

- 2.1 That the Internal Audit Consortium Annual Report for 2017/18 be accepted.

## 3.0 Report details

### SUMMARY OF WORK UNDERTAKEN

- 3.1 Appendix A details the audit reports issued in respect of audits included in the 2017/18 internal audit plan. The appendix shows for each report the overall assurance level provided on the reliability of the internal controls and the assurance level given at the last audit. The report opinions can be summarised as follows:

<b>Assurance Level 2017/18</b>	<b>Number</b>	<b>Control Level 2016/17</b>	<b>Number</b>
Substantial	7	Good	8
Reasonable	16	Satisfactory	12
Limited	10	Marginal	4
Inadequate	2	Unsatisfactory	5
		Unsound	0
<b>Total</b>	<b>35</b>		<b>29</b>

- 3.2 A definition of the above assurance 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	2017/18		2018/19
	Plan	Actual	Plan
Cost per Audit Day	£280	£266	£287
Percentage of Plan Completed (CBC)	96%	97%	96%
Sickness Absence (Average Days per Employee)	8.0 (Corporate Trigger)	4.02	8.0
Customer Satisfaction Score (CBC)	85%	95%	85%
To issue internal audit reports within 10 days of the close out meeting (CBC)	90%	100%	90%
Number/proportion of audits completed within time allocation (CBC)	80%	85%	80%
% 2017/18 Agreed recommendations implemented (CBC) as at end Feb 18	80%	90%	80%
Quarterly reporting to Standards and Audit Committee	100%	100%	100%

### **OPINION ON THE ADEQUACY AND EFFECTIVENESS OF THE CONTROL ENVIRONMENT**

3.5 The Internal Audit Consortium Manager is responsible for the delivery of an annual audit opinion that can be used by the council to inform its governance system. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

3.6 In relation to the main financial systems I am satisfied that reasonable assurance can be provided in respect of the governance, risk management and control arrangements.

- 3.7 However, during 2017/18 10 limited assurance reports have been issued and 2 inadequate assurance reports (see Appendix A). In these areas the governance, risk management and control arrangements were not operating effectively, some key risks were not well managed and there was a risk that the systems objectives would not be achieved.
- 3.8 Where weaknesses have been identified internal audit has worked with management to agree appropriate corrective actions and a timescale for improvement.
- 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.
- 3.10 The Standards and Audit Committee also now receive a 6 monthly report in relation to outstanding audit recommendations. Where a Limited or inadequate assurance audit report is issued, managers are also required to attend the Standards and Audit Committee to discuss progress and to provide assurance that recommendations are being implemented in a timely fashion.
- 3.11 In addition to the issues highlighted by internal audit Members should also be aware of other high risk areas that are highlighted within the Council's Corporate Risk Register. In particular:-
- Having a sustainable financial plan;
  - Managing change effectively to deliver the required transformational changes and savings
  - Workforce – ensuring the council has the right skills and capacity
  - Investment and development of the ICT infrastructure
  - Provision of social housing
  - Emergency Planning and Business Continuity arrangements

- The full impact of BREXIT is also unknown and may lead to further risks for the Council.

## **ISSUES FOR INCLUSION IN THE ANNUAL GOVERNANCE STATEMENT**

- 3.12 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 budget, data protection, information technology, non-housing property repairs, health and safety and procurement have all been raised as significant governance issues within the annual governance statement.

## **COMPARISON OF PLANNED WORK TO ACTUAL WORK UNDERTAKEN**

- 3.13 The Internal Audit Plan for 2017/18 was approved by the Standards and Audit Committee on the 5th April 2017. All but one audit has been completed. The planned audit in respect of the new system review (Mentor replacement) has not occurred as the system has not yet been replaced, this will be reviewed as and when the system replacement happens.

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

- 3.14 During 2017/18 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
- 3.15 In October 2016 the internal audit consortium was subject to an external review to ensure compliance with Public Sector Internal Audit Standards. The review concluded that the Consortium was compliant with and in places exceeded the requirements of the PSIAS but a number of recommendations

were made to further enhance the service provided by the Consortium. Apart from ongoing areas of development this action plan has now been completed. A further improvement plan will now be developed.

3.16 It can also be confirmed that the internal audit activity is organisationally independent. Internal audit reports directly to the Director of Finance and Resources but has a direct and unrestricted access to the Corporate Leadership Team and the Standards and Audit Committee.

3.17 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. A further review of the audit manual is scheduled for the summer of 2018.

- 3.18 The above quality control procedures have ensured conformance with the PSIAS.
- 3.19 Based on the customer satisfaction survey forms returned, the average score was 95% for customer satisfaction during 2017/18 (2016/17 result 95%).
- 3.20 The results of the Client Officer survey for Chesterfield were a score of 90%.

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

- 3.21 The Audit Charter was last reported to and approved by the Audit and Standards Committee in June 2016. The Charter is scheduled to be reviewed again in the summer of 2018.
- 3.22 Based on the information provided in this report on the completion of the 2017/18 internal audit plan, it is considered that the requirements of the Charter were met during the year.
- 1.23 There are no human resources implications.
- 1.24 There are no financial implications
- 1.25 There are no legal or data protection implications.
- 3.26 Risk Management - This report ensures that Members are aware of the work undertaken by internal audit during

2017/18 and their opinion on the adequacy and effectiveness of the systems in place at Chesterfield Borough Council.

3.27 Equalities Impact Assessment (EIA) - Not Applicable.

#### **4.0 Alternative Options and Reasons for Rejection**

4.1 Not Applicable.

#### **5.0 Recommendation**

5.1 That the Internal Audit Consortium Annual Report for 2017/18 be accepted.

#### **6.0 Reasons for recommendation**

6.1 To present to Members the annual report for the Internal Audit Consortium in respect of Chesterfield Borough Council for 2017/18.

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

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

#### **Decision information**

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

#### **Document information**



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<b>Background documents</b> These are unpublished works which have been relied on to a material extent when the report was prepared.	
<b>Appendices to the report</b>	
Appendix A	Internal Audit Reports Issued 2017/18