

## **INTERNAL AUDIT CONSORTIUM ANNUAL REPORT 2014/2015**

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**MEETING: STANDARDS AND AUDIT COMMITTEE**

**DATE: 24<sup>th</sup> JUNE 2015**

**REPORT BY: INTERIM HEAD OF INTERNAL AUDIT  
CONSORTIUM**

**WARD: ALL**

**COMMUNITY ASSEMBLIES: ALL**

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**FOR PUBLICATION  
BACKGROUND PAPERS:**

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### **1 Purpose of Report**

The purpose of this report is to:

- Present a summary of the internal work undertaken 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).
  - Review progress against the Internal Audit Improvement Plan.
  - Comment on the results of the quality assurance programme.
  - Confirm the organisational independence of internal audit
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- Review the performance of the Internal Audit Consortium against the current Internal Audit Charter.

## **2 Recommendation**

- 2.1 That the Internal Audit Consortium Annual Report for 2014/15 be noted.

## **3 Annual Report**

### **3.1 SUMMARY OF WORK UNDERTAKEN**

- 3.1.1 Appendix 1 details the audit reports issued in respect of audits included in the 2014/15 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:

<b>Control Level</b>	<b>Number of Reports</b>	<b>Percentage 2014/15</b>	<b>Percentage 2013/14</b>
Good	14	40.0	31.7
Satisfactory	12	34.3	61.0
Marginal	8	22.8	4.9
Unsatisfactory	1	2.9	2.4
Unsound	0	0	0
	<b>35</b>	<b>100.0</b>	<b>100.0</b>

- 3.1.2 A definition of the above control levels is shown in Appendix 1.

- 3.1.3 There were no issues relating to fraud arising from the reports detailed in Appendix 1.

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

Description	2014/15		2015/16
	Plan	Actual	Plan
Cost per Audit Day	£269	£234	£279
Percentage of Plan Completed	96%	100%	96%
Sickness Absence (Average Days per Employee)	8.5 (Corporate Target)	6.2	8.5 (Corporate Target)
Customer Satisfaction Score (see para 11 below)	80%	91.6	80%
To issue internal audit reports within 10 days of the close out meeting	New Indicator	New Indicator	90%
Number/proportion of audits completed within time allocation	New Indicator	New Indicator	80%
% Agreed recommendations made in 2015/16 implemented by 30th April 2016 where due for implementation by then	New Indicator	New Indicator	100%
Quarterly reporting to Standards and Audit Committee	New Indicator	New Indicator	100%

3.1.5 It should be noted that the cost per audit day for 2015/16 is calculated on the basis that a Head and Deputy Head of the Internal Audit Consortium have been budgeted for. In fact the consortium is currently operating with just a head of audit which should lead to a reduction in the cost per audit day.

3.1.6 The range of performance measurements in respect of the Internal Audit Consortium has been increased for the 2015/16 financial year. The Public Sector Internal Audit Standards state that performance monitoring should include comprehensive performance targets. A review was undertaken of the possible measures that could be used and the most appropriate and meaningful ones are to be adopted for 2015/16.

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

- 3.2.1 In respect of the main financial systems, Appendix 1 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.
- 3.2.2 Overall, 74.3 % 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. However, this is a deterioration from the 2013/14 position when 92.7% of audits received a good or satisfactory opinion.
- 3.2.3 There was 1 unsatisfactory report issued during the year in relation to procurement, an action plan has been agreed but will take some time to fully implement. A further 8 reports were classed as marginal the recommendations made have been agreed and mostly implemented. The IT Security marginal report recommendations are being actioned as part of a wider IT review.
- 3.2.4 Concerns in relation to the increased number of marginal reports issued during 2014/15 have been raised with the Corporate Management Team (CMT) and Senior Leadership Team (SLT). The reasons for the increase are varied and include resource issues (Markets, Council Tax), changes to procedures and working practices (Healthy Living Centre and QPSC), and there being a number of areas that either have not been looked at before (Solar Panels, Transport Code of Practice) or have not been examined for a couple of years (Property Rents). Procurement and IT issues are ongoing.
- 3.2.5 Performance management procedures have been put in place in that CMT are now receiving regular reports and discussing how best to progress and speed up the implementation of audit recommendations made. SLT are also working with senior managers to establish the reasons for the drop in performance with a view to putting in place corrective actions to return performance to 2013/14 levels.

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

3.3.1 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 procurement practices along with training for staff has been raised as a significant governance issue within the annual governance statement. In addition to this concerns relating to IT provision and security have also been raised. A critical data protection report was issued after the year end and this too has been raised in the Annual Governance Statement as a key governance issue.

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

3.4.1 The Internal Audit Plan for 2014/15 was approved by the Standards and Audit Committee on the 4th April 2014. A comparison of planned audits with audits completed is shown as Appendix 2. 100% of planned audits in respect of the internal audit plan were completed during the year.

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

3.5.1 During 2014/15 a self assessment was undertaken to review compliance with the Public Sector Internal Audit Standards. The results of the review were reported to the Standards and Audit Committee in December 2014.

3.5.2 This review confirmed that there were no significant areas of non compliance but an improvement plan was developed to address the minor issues arising. Progress against the improvement plan can be seen at Appendix 3. As part of the improvement plan an Audit Guide has been developed which is due to be advertised in the Borough Bulletin in June 2015 and is aimed at making staff more aware of the role and expectations of internal audit (Appendix 4).

3.5.3 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 senior management and the Standards and Audit Committee.

3.5.4 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.

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

3.5.6 Based on the customer satisfaction survey forms returned, the average score was 91.6% for customer satisfaction during 2014/15 (2013/14 result 90%).

3.5.7 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). The 2013/14 score was 100%.

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

3.6.1 The Audit Charter was reported to and approved by the Audit and Standards Committee in September 2013.

3.6.2 Based on the information provided in this report on the completion of the 2014/15 internal audit plan, it is considered that the requirements of the Charter were met during the year.

## 4 Considerations

### 4.1 Finance and Risk Implications

4.1.1 This report ensures that Members are aware of the work undertaken by internal audit during 2014/15 and their opinion on the adequacy and effectiveness of the systems in place at Chesterfield Borough Council.

## 5 Recommendation

5.1 That the Internal Audit Consortium Annual Report for 2014/15 be noted.

## 6 Reason for Recommendation

6.1 To present to Members the annual report for the Internal Audit Consortium in respect of Chesterfield Borough Council for 2014/15.

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.

J Williams  
Interim Head of the Internal Audit Consortium

Further information on this report can be obtained from Jenny  
Williams EXT 5468



## Appendix 1

### Chesterfield Borough Council – Internal Audit Reports Issued 2014/15

Ref	Report Title	Overall Opinion	
		2014/15	Previous Audit
1	Property Rents	Marginal	Marginal
2	Museum	Satisfactory	Good
3	Recruitment and Selection	Satisfactory	N/A
4	Crematorium	Satisfactory	Satisfactory
5	Council Tax	Marginal	Satisfactory
6	Transport Code of Practice	Marginal	N/A
7	C & D book independent checks	Good	Good
8	Cash and Banking	Good	Good
9	Dunston Innovation Centre	Good	Good
10	Tapton Innovation Centre	Good	Good
11	Council House Sales	Satisfactory	Good
12	Non Domestic Rates	Satisfactory	Satisfactory
13	Bank Reconciliation	Good	Satisfactory
14	Visitor Information Centre	Good	Good
15	Community Assemblies	Good	N/A
16	Housing Benefits/Council Tax Support	Good	Good
17	Treasury Management Loans	Good	Satisfactory
18	Investments	Good	Good
19	Markets	Marginal	Good
20	Housing Rents	Satisfactory	Good
21	Healthy Living Centre	Marginal	Satisfactory
22	Housing Repairs Capital	Satisfactory	Satisfactory
23	Queens Park Sports Centre	Marginal	Satisfactory
24	IT Security	Marginal	Marginal
25	Payroll	Satisfactory	Satisfactory
26	Procurement	Unsatisfactory	Marginal
27	Accounts Receivable	Good	Good
28	Accounts Payable	Satisfactory	Satisfactory
29	Agresso FMS and Budgetary Control	Good	Good
30	Pavements	Good	Good
31	Vicar Lane	Satisfactory	Marginal
32	Car Parks	Satisfactory	Satisfactory
33	Solar Panels	Marginal	N/A
34	ICT Service Desk	Good	N/A
35	Housing Repairs : Responsive	Satisfactory	Satisfactory

## Internal Audit Report Opinion Definitions

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

## Appendix 2

### INTERNAL AUDIT CONSORTIUM

### CHESTERFIELD BOROUGH COUNCIL

#### Comparison Planned Audits to Audits Completed 2014/15

<b>Main Financial Systems – Planned Audits</b>	<b>Progress as at 31<sup>st</sup> March 2015</b>
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

<b>Other Operational Audits – Planned Audits</b>	<b>Progress as at 31<sup>st</sup> March 2015</b>
Car Parks Income	Completed
Community Assemblies	Completed
Healthy Living Centre	Completed
Innovation Centres	Completed
Joint Crematorium	Completed
Markets Income	Completed
Museum/Revolution House	Completed
Pavement/Vicar Lane	Completed
Property Rents	Completed
Queens Park Sports Centre	Completed
Recruitment and Selection	Completed
Solar Panels	Completed
Sale of Council Houses	Completed
Tourist Information Centre	Completed

<b>Computer / IT Related</b>	<b>Progress as at 31<sup>st</sup> March 2015</b>
Network Security	Completed
Service Desk	Completed

<b>Corporate / Cross Cutting Issues – Planned Audits</b>	<b>Progress as at 31<sup>st</sup> March 2015</b>
Annual Governance Statement	Completed
Procurement	Completed
Brimington Parish Council	Completed
Financial Advice / Working Groups	On going

<b>Location / Regularity</b>	<b>Progress as at 31<sup>st</sup> March 2015</b>
Cash Floats	Completed

<b>Special Investigations / Contingency</b>	As required
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<b>Audit Committee / Client Liaison</b>	On going
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## **CBC – PROGRESS AGAINST IMPROVEMENT PLAN**

<b>Improvement Area</b>	<b>Current/ Action Required/Taken</b>	<b>Officer Responsible</b>	<b>Progress</b>
The Standards state that an external assessment of Internal Audit should be carried out at least once every 5 years	Not undertaken as yet. An external assessment must be carried out by April 2018.	Interim Head of IAC and Head of Finance	The options for external assessment will be identified in 2016 and the necessary procurement exercise undertaken early 2017/18 to ensure that the assessment is undertaken prior to April 2018.
Performance monitoring – review of performance targets used. The Standards state that on-going performance monitoring should include comprehensive performance targets.	Performance indicators are reported in the annual report but are few in number. The indicators used by other Councils have been reviewed and assessed for appropriateness.	Interim Head of the IAC	Completed: Additional indicators have been identified and will start being measured in 2015/16

<b>Improvement Area</b>	<b>Current/ Action Required/Taken</b>	<b>Officer Responsible</b>	<b>Progress</b>
The Standards state that Internal Auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications	A training needs assessment established that the unit is highly qualified however only the HOIAC is fully qualified and there is limited IT expertise. Staff have been asked in their EPD's what training they would like/need.	Interim Head of IAC	Completed: One member of staff is starting their CIPFA in September 2015 and one member of staff is considering undertaking an IT Auditing qualification. Another member of staff initially requested sponsorship to undertake the Association of Accounting Technicians examinations (AAT) which was approved however that staff Member has now decided against undertaking the training.
To make Officers more aware of the role and expectations of Internal Audit	Financial Regulations contain a section in relation to Internal Audit. The Interim Head of the IAC to produce an article/leaflet to place on the intranet explaining the role of Internal Audit and the audit process.	Interim Head of IAC	Completed: An Audit Guide has been produced and will be advertised in the June 2015 Borough Bulletin (Appendix 4)

<b>Improvement Area</b>	<b>Current/ Action Required/Taken</b>	<b>Officer Responsible</b>	<b>Progress</b>
The Standards state that when planning an audit consideration should be given to significant risks and the opportunities to make improvements to the activity's governance, risk management and control processes.	Testing schedules are reviewed prior to each audit but there is scope to improve this process to ensure that high risk and governance areas are fully covered.	Interim Head of IAC/Senior Auditors	Completed/ongoing: test schedules are now examined more critically by senior auditors before an audit commences

<b>Improvement Area</b>	<b>Current/ Action Required/Taken</b>	<b>Officer Responsible</b>	<b>Progress</b>
<p>Increasing the flexibility of Internal Audit Consortium staff to be able to work at each location.</p>	<p>Staff are largely fixed in one location. The introduction of laptops will aid flexibility.</p>	<p>Interim Head of the IAC</p>	<p>The Interim Head of the IAC is trialling the use of a laptop. Other CBC audit staff will move to laptops once problems have been resolved as auditors need to access most systems and a lack of access via a laptop would impede progress against the audit plan. Target date: End September 2015.</p> <p>Auditors at NEDDC and Bolsover DC will be issued with laptops shortly. Target Date: End September 2015.</p>







## **GUIDE TO INTERNAL AUDIT**

### **Purpose of the Guide**

This guide is to try and allay some of the fears and misconceptions connected with an internal audit by explaining the role and purpose of internal audit. We would like managers to view an internal audit as a positive experience and not just a necessary evil! We are not trying to catch you out, pick fault or make life difficult, we just want to ensure that the appropriate controls are in place and operating to reduce risks for the council.

### **The Audit Team**

We have a very experienced internal audit team that is friendly and approachable, willing to work around your other work commitments and to discuss any issues as they arise to try and find mutually acceptable solutions.

### **Why have an Internal Audit – other than you have to?**

An internal audit will add value to you service by:-

- Confirming that there is a sound system of internal control and that your internal controls are operating effectively;
- Identifying potential weaknesses that you may not have considered;
- Ensuring that risks are being appropriately managed;

- Offering advice and guidance;
- Making practical and useful recommendations for improvement so there is less chance of things going wrong or mistakes being missed;
- Sharing the experiences of other Consortium members and best practice;
- Confirming that records are reliable so that management decisions can be based on accurate information;
- Confirming that the Council's policies, procedures and instructions are being followed;
- Confirming that assets are properly safeguarded.

## **Statutory Requirements**

It is a statutory requirement for Councils to have an Internal Audit function. Internal audit is an independent, objective assurance function established for the review of the control environment (risk management, internal controls and governance) within an organisation.

The Internal Audit Consortium has to adhere to professional Standards including the Public Sector Internal Audit Standards which came in to force in April 2013.

Internal audit has a right of access to all books, records and documents (including computer files) and a right of entry to all sites, works and offices and any other property if considered necessary during an audit.

Financial Regulations also set out the role and purpose of internal audit. Senior managers are required to report any suspicions of fraud, corruption, financial irregularity etc. to the Head of Internal Audit.

## **Audit Plans**

Each year we produce a detailed audit plan that is approved by the Audit Committee. The plan is established by various means but includes a detailed risk assessment so that areas with the highest risk are covered more frequently.

Some areas such as housing benefits are covered every year as there is a high value and high number of transactions involved and it would also be very embarrassing for the Council if something went wrong. Other areas with low income and expenditure and low risk for example pest control may only be covered once every 5 years.

In respect of key financial systems such as Council Tax, Debtors and Creditors etc., External Audit (KPMG) place reliance on our work which reduces the time they need to spend on audits and hence keeps their fees to a minimum.

## **The Audit Process**

- At the start of each audit we will contact the appropriate manager and arrange a start date for the audit.
- Where required a start up meeting will be arranged to discuss the audit, any concerns managers have in relation to the area under review and any changes that may have occurred since the previous audit.
- The audit will then commence. We try to cause as little disruption as possible and to work around your other work commitments.
- Initially we will need to document the systems and procedures in place particularly if we have not reviewed an area for some time.
- Testing will be undertaken to gain assurance that the systems and procedures in place are operating effectively and that they are appropriate.
- We may ask for copies of documents you hold such as your own system notes, procedures manuals, user guides, committee minutes etc.

- Samples will usually be selected and examined to ensure that procedures are being followed.
- Once we have completed the audit a draft report will be produced. If we have noted any areas of weakness that present a risk then we will make recommendations within the report to address these risks.
- A close out meeting will then be arranged with the Service Manager where the findings of the report and the recommendations made will be discussed. This is the opportunity for managers to correct any factual inaccuracies. The recommendations will be discussed in terms of their practicality and we will be willing to consider alternative solutions to address a risk where possible.
- An audit opinion on the controls in place will be included within the report. These are:-

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

- The report will then be issued. The service manager will have 5 working days to agree the factual content of the report and 15 working days to complete and return the implementation schedule (action plan).
- The recommendations made will then be monitored to ensure that they are implemented. The Public Sector Internal Audit Standards have made it a requirement that the Head of Internal Audit ensures that agreed recommendations are implemented.

- Each quarter the results of the audits undertaken are reported to the Council's Audit Committee.
- The Audit Committee has the power to summons managers to meetings if they feel that they are not giving internal audit reports and recommendations the consideration they are due.
- At the end of the year an annual report is produced summarising all the work we have undertaken in the year. This is used to produce an opinion on the governance, risk and control arrangements in place which in turn feeds in to the Annual Governance Statement.

## **Aiding the audit process**

The audit process runs much smoother if managers ensure that:-

- Information is provided as soon as possible when requested;
- That access is granted at all reasonable times to premises, personnel, records and assets that the auditors consider necessary for the purpose of their work;
- The most knowledgeable personnel in the area to be audited are available;
- The findings and recommendations made in audit reports are responded to promptly and agreed recommendations implemented.

## **Customer Satisfaction Surveys**

When the report is issued you will receive with it a Customer Satisfaction survey to complete. It helps us to get as many surveys back as possible so that we can use them to improve and develop our service.

## **Conclusion**

Whilst we appreciate that everyone is busy and under pressure, we hope this guide has helped to explain why internal audit can add value and is not something to fear.

Internal Audit is a service to management that is independent and unbiased. We aim to be professional and to offer constructive and practical recommendations to help improve and protect services.