

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

25 June 2015

**Internal Audit Consortium 2014/15 Annual Report to North East
Derbyshire District Council**

This report is public

Purpose of the Report

The purpose of this report is to:

- Present a summary of the internal work undertaken during 2014/15 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.
- Review the performance of the Internal Audit Consortium against the current Internal Audit Charter.

1 Report Details

- 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. An additional column shows the opinion given at the last audit for information. The report opinions can be summarised as follows:

Control Level	Number of Reports	Percentage 2014/15	Percentage 2013/14
Good	13	61.9	73.0
Satisfactory	7	33.3	23.0
Marginal	1	4.8	4.0
Unsatisfactory	0	0	0
Unsound	0	0	0
	21	100.0	100.0

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

- 1.2 There were no issues relating to fraud arising from the reports detailed in Appendix 1.
- 1.3 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%	95%	96%
Sickness Absence (Days per Employee)	8.5 (Corporate Target)	6.2	8.5 (Corporate Target)
Customer Satisfaction Score (see para 11 below)	80%	94.5%	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%
% 2015/16 Agreed recommendations implemented	New Indicator	New Indicator	80%
Quarterly reporting to Audit and Corporate Governance Scrutiny Committee	New Indicator	New Indicator	90%

- 1.4 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 which will lead to a reduction in the cost per audit day.
- 1.5 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.

OPINION ON THE ADEQUACY AND EFFECTIVENESS OF THE CONTROL ENVIRONMENT

- 1.5 In respect of the main financial systems, Appendix 1 shows that internal controls were found to be operating satisfactorily or well, giving an overall confidence in the internal control system operating in relation to these systems.
- 1.6 Overall, 95% of the areas audited received a good or satisfactory opinion demonstrating that there are effective systems of governance, risk management and control in place. There were no areas that were judged to be unsatisfactory or unsound.

ISSUES FOR INCLUSION IN THE ANNUAL GOVERNANCE STATEMENT

- 1.7 The internal control issues arising from audits completed in the year have been reported to the Director of Operations for consideration during the preparation of the Annual Governance Statement. There have been no unsatisfactory or unsound reports issued in 2014/15 and no issues identified for inclusion in the Annual Governance Statement.

COMPARISON OF PLANNED WORK TO ACTUAL WORK UNDERTAKEN

- 1.8 The Internal Audit Plan for 2014/15 was approved by the Audit Committee on the 3rd April 2014. A comparison of planned audits with audits completed is shown as Appendix 2. The Section 106 audit has been deferred to 2015/16 and the capital accounting audit will be completed at the end of June when the updated information is available from Accountancy. Overall 95% of planned audits in respect of the internal audit plan for 2014/15 will have been completed.

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

- 1.9 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 Audit, Corporate Governance and Scrutiny Committee in December 2014.
- 1.10 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 has been advertised on the intranet and is aimed at making staff more aware of the role and expectations of internal audit (Appendix 4)

- 1.11 It can also be confirmed that the internal audit activity is organisationally independent. Internal audit reports to the Director of Operations but has a direct and unrestricted access to senior management and the Audit and Corporate Governance Scrutiny Committee.
- 1.12 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.
- 1.13 The above quality control procedures have ensured conformance with the PSIAS.
- 1.14 Based on the customer satisfaction survey forms returned, the average score was 94.5% for customer satisfaction during 2014/15 (2012/13 result 94%).
- 1.15 The results of the Client Officer survey for North East Derbyshire District Council was a score of 91% (32 out of a maximum of 35 - for the seven areas reviewed this represented 4 'very good' scores and 3 'good' score). The 2013/14 score was 94%.

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

- 1.16 The Audit Charter was reported to and approved by the Audit and Corporate Governance Scrutiny Committee in September 2013.
- 1.16 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.

2 Conclusions and Reasons for Recommendation

- 2.1 To present to Members the annual report for the Internal Audit Consortium in respect of North East Derbyshire District Council for 2014/15.
- 2.2 To ensure compliance with the Public Sector Internal Audit Standards.
- 2.3 To provide an opinion on the overall adequacy and effectiveness of the Council's control environment including any qualifications to that opinion.

3 Consultation and Equality Impact

- 3.1 Not Applicable.

4 Alternative Options and Reasons for Rejection

- 4.1 Not applicable.

5 Implications

5.1 Finance and Risk Implications

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 North East Derbyshire District Council.

5.2 Legal Implications including Data Protection

None.

5.3 Human Resources Implications

None

6 Recommendation

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

7 Decision Information

Is the decision a Key Decision? (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
District Wards Affected	None
Links to Corporate Plan priorities or Policy Framework	The internal audit plan helps to achieve the corporate aim "Strategic Organisational Development" which looks to continually improve the organisation.

8 Document Information

Appendix No	Title
Appendix 1	Internal Audit Reports issued 2014/15
Appendix 2	Comparison of Planned Audits to Audits Completed 2014/15
Appendix 3	Progress against Improvement Plan
Appendix 4	Audit Guide
Background Papers	
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North East Derbyshire District Council – Internal Audit Reports Issued
2014/15

Ref	Report Title	Overall Opinion 2014/15	Overall Opinion Previous Audit
1	Performance Management	Good	Satisfactory
2	E.H Misc Income	Satisfactory	Satisfactory
3	Risk Management	Satisfactory	Satisfactory
4	Eckington Leisure Centre	Satisfactory	Marginal
5	Cash and Bank	Good	Good
6	Treasury Management	Good	Good
7	NNDR	Good	Good
8	Grounds Maintenance	Good	Good
9	Recruitment and Selection	Marginal	Satisfactory
10	Car Allowances, Mileage and Subsistence Claims	Good	Good
11	Housing Benefits and Council Tax Reduction Scheme	Good	Good
12	VAT	Good	Satisfactory
13	Data Protection	Satisfactory	Unsatisfactory
14	Council Tax	Good	Satisfactory
15	Laptops and Removable Media	Satisfactory	Marginal
16	Payroll	Good	Good
17	Asset Management Arrangements	Satisfactory	Good
18	Creditors	Good	Good
19	Budgetary Control	Good	Good
20	Debtors	Satisfactory	Good
21	Main Accounting	Good	Good

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**NORTH EAST DERBYSHIRE DISTRICT COUNCIL****Comparison of Planned Audits (Revised Plan) to Audits Completed
2014/15**

Main Financial Systems – Planned Audits	Progress as at 31st March 2015
Main Accounting System	In Progress
Budgetary Control	In Progress
Capital Accounting	In Progress
Payroll	Completed
Creditor Payments	In Progress
Debtors	In Progress
Treasury Management (Loans and Investments)	Completed
Cash and Banking	Completed
Council Tax	Completed
Non Domestic Rates	Completed
Housing / Council Tax Benefit	Completed
VAT	Completed

Other Operational Audits – Planned Audits	Progress as at 31st March 2015
Operations Directorate	
Grounds Maintenance	Completed
Asset Management Arrangements	Completed
Growth Directorate	
Section 106	Deferred
E.Health Misc Income	Completed
Transformation Directorate	
Eckington Pool	Completed
Expenses and Allowances	Completed

Computer / IT Related – Planned Audits	Progress as at 31st March 2015
Laptops/Removable Media	Completed
Review of new Civica System	Completed

Fraud and Corruption – Planned Audits	Progress as at 31st March 2015
Fraud Modules	Completed

Corporate / Cross Cutting Issues – Planned Audits	Progress as at 31st March 2015
Corporate Governance / Assurance Statement	Input to working group
Financial Advice / Working Groups	On going
Performance Management	Completed
Risk Management	Completed
Data Protection	Completed
Recruitment and Selection	Completed

	Progress as at 31st March 2015
Petty Cash	Completed

Special Investigations / Contingency	As required
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Audit Committee / Client Liaison	On going
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INTERNAL AUDIT CONSORTIUM**NORTH EAST DERBYSHIRE DITRICT COUNCIL – PROGRESS AGAINST IMPROVEMENT PLAN**

Standards	Current	Action Required	Progress as at 31/03/2015
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	The Head of Audit and the Head of Finance will undertake an appropriate procurement exercise to ensure that an external review is undertaken prior to April 2018.
Performance monitoring – review of performance targets used. The Standards state that ongoing performance monitoring should include comprehensive performance targets.	Performance indicators are reported in the annual report	Review other possible performance indicators to assess if appropriate for adoption	Completed: Additional indicators have been identified and will start being measured in 2015/16
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	To encourage and sponsor staff to obtain further relevant qualifications	One application has been received to undertake training for a relevant professional qualification starting in September 2015.

Standards	Current	Action Required	Progress as at 31/03/2015
To make people more aware of the role and expectations of Internal Audit	Financial Regulations contain a section in relation to Internal Audit	To produce an article/leaflet to place on the intranet explaining the role of Internal Audit and the audit process	Completed: An article was placed on the intranet in March 2015 (Appendix 4)
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	Test schedules should be geared more towards risk and governance areas	Ongoing
Increasing the flexibility of Internal Audit Consortium staff to be able to work at each location.	Staff are largely fixed in one location	Increase the scope for auditors to undertake audits at each site or the same audit across each site to enhance the sharing of knowledge and experience.	Audit staff will shortly be moving from desktops to laptops. Bolsover DC and NEDDC Audit staff are now based at the same location.



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:-

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.

- 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.