

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

19 May 2016

<p>Internal Audit Consortium 2015/16 Annual Report to North East Derbyshire District Council</p>

This report is public

Purpose of the Report

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).
- Comment on the results of the quality assurance programme.
- Monitor progress against the Improvement Plan and to present the new improvement plan.
- 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 2015/16 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 2015/16	Percentage 2014/15
Good	13	52	61.9
Satisfactory	8	32	33.3
Marginal	3	12	4.8
Unsatisfactory	1	4	0
Unsound	0	0	0
Total	25	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	2015/16		2016/17
	Plan	Actual	Plan
Cost per Audit Day	£279	£237	£286
Percentage of Plan Completed	96%	93%(1)	96%
Sickness Absence (Days per Employee)	8.5 (Corporate Target)	11 (2)	8.5 (Corporate Target)
Customer Satisfaction Score (see para 11 below)	80%	92%	85%
To issue internal audit reports within 10 days of the close out meeting	90%	96%	90%
Number/Proportion of audits completed within time allocation	80%	75%(3)	80%
% 2015/16 Agreed recommendations implemented when due	80%	64%(4)	80%
Quarterly reporting to Audit and Corporate Governance Scrutiny Committee	90%	100%	90%

(1) 100% of the plan will be completed however at the time of writing the report the procurement audit and the PSN/Network security audit were in the process of being finalised.

(2) Predominantly due to 1 long term sickness case, that employee has now returned to work.

(3) Mainly due to spending longer on the marginal and unsatisfactory areas identified this year

(4) Some recommendations may have been implemented but the PERFORM system has not been updated. The Internal Audit Consortium's improvement

plan at Appendix 3 details how efforts will be made to try and improve this figure.

OPINION ON THE ADEQUACY AND EFFECTIVENESS OF THE CONTROL ENVIRONMENT

- 1.4 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.
- 1.5 Overall, 84% of the areas audited received a good or satisfactory opinion demonstrating that there are effective systems of governance, risk management and control in place. However, this is a reduction on the previous year when 95% of the areas examined were deemed good or satisfactory.
- 1.6 Three areas that were judged to be marginal (Health and Safety, Recruitment and Selection and Commercial and Industrial property rents) and 1 area unsatisfactory (Section 106 Agreements) where only limited assurance on the reliability of internal controls can be given. Management have agreed the recommendations made and are actively working to implement them.

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. In turn, these issues were discussed by the Annual Governance Statement working party. Section 106 controls and health and safety procedures have both been raised as significant governance issues.

COMPARISON OF PLANNED WORK TO ACTUAL WORK UNDERTAKEN

- 1.8 The Internal Audit Plan for 2015/16 was approved by the Audit Committee on the 16th April 2015. A comparison of planned audits with audits completed is shown as Appendix 2. Overall 100% of planned audits in respect of the internal audit plan for 2015/16 will be completed (currently 93%) however the procurement and PSN network security reports are in the process of being finalised.
- 1.9 Two additional audits were completed at Managers requests. These were commercial waste and compliance with the transparency agenda. The audits were requested because they were being undertaken at Bolsover District Council and due to management and operational arrangements it was logical to undertake both together.

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

- 1.10 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.
- 1.11 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 largely been completed. Appendix 3 shows the new improvement plan for the Consortium that will ensure the service continually moves forward and develops.
- 1.12 It can 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.
- 1.13 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 has been issued with a copy of the Public Sector Internal Audit Standards and the Internal Audit Manual (which documents working procedures) has been reviewed and updated again during 2015/16.
- 1.14 The above quality control procedures have ensured conformance with the PSIAS.

- 1.15 Based on the customer satisfaction survey forms returned, the average score was 92% for customer satisfaction during 2015/16 (2014/15 result 94.5%).
- 1.16 The result of the Client Officer survey for North East Derbyshire District Council was a score of 91% (for the seven areas reviewed this represented 4 'very good' scores and 3 'good' scores). The 2014/15 score was also 91%.

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

- 1.17 The Audit Charter was reported to and approved by this Committee in September 2015 and is also scheduled for approval this meeting as it has been updated to reflect the April 2016 changes to the Public Sector Internal Audit Standards.
- 1.18 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.

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 2015/16.
- 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 2015/16 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 2015/16 be noted.

7 Decision Information

Is the decision a Key Decision? (A Key Decision is an executive decision 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 "Transforming our organisation" which looks to continually improve the organisation.

8 Document Information

Appendix No	Title
Appendix 1	Internal Audit Reports issued 2015/16
Appendix 2	Comparison of Planned Audits to Audits Completed 2015/16
Appendix 3	Internal Audit Consortium Improvement Plan April 2016
Background Papers	
Report Author	Contact Number
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Appendix 1

North East Derbyshire District Council – Internal Audit Reports Issued 2015/16

Ref	Report Title	Overall Opinion 2015/16	Overall Opinion Previous Audit
1	Sharley Park Leisure Centre	Satisfactory	Satisfactory
2	Dronfield Leisure Centre	Good	Satisfactory
3	Planning Fees	Satisfactory	Satisfactory
4	National Fraud Initiative	Good	Good
5	Refuse Collection	Good	Good
6	Health and Safety	Marginal	Good
7	Leisure Direct Debit Scheme	Satisfactory	Good
8	Non Domestic Rates	Good	Good
9	Recruitment and Selection	Marginal	Marginal
10	Commercial Waste	Satisfactory	Good
11	Cash and Bank	Good	Good
12	Housing Benefits	Satisfactory	Good
13	Treasury Management	Good	Good
14	Transparency Agenda	Satisfactory	N/A
15	ICT Disaster Recovery Arrangements	Satisfactory	Good
16	Creditors	Good	Good
17	Payroll	Good	Good
18	Council Tax	Good	Good
19	Coney Green Business Centre	Good	Marginal
20	Section 106	Unsatisfactory	Marginal
21	Main Accounting	Good	Good
22	Sundry Debtors	Satisfactory	Satisfactory
23	Insurance	Good	Good
24	Commercial and Industrial Property Rents	Marginal	Marginal
25	Budgetary Control	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
2015/16**

Main Financial Systems – Planned Audits	Progress as at 31st March 2016
Main Accounting System	In Progress
Budgetary Control	In Progress
Capital Accounting	May 16
Payroll	Complete
Creditor Payments	Complete
Debtors	In Progress
Treasury Management (Loans and Investments)	Complete
Cash and Banking	Complete
Council Tax	Complete
Non Domestic Rates	Complete
Housing / Council Tax Benefit	Complete

Other Operational Audits – Planned Audits	Progress as at 31st March 2016
Operations Directorate	
Insurance	In Progress
Refuse Collection	Complete
Business Centres	Complete
Industrial Property Rents/Periodic Income	In Progress
Final Accounts	Ongoing
Growth Directorate	
Section 106	Complete
Planning Fees	Complete
Transformation Directorate	
Dronfield Sports Centre	Complete
Sharley Park Leisure Centre	Complete
Leisure Centres Direct Debit Scheme	Complete

Computer / IT Related – Planned Audits	Progress as at 31st March 2016
PSN/Network Security	In Progress
Disaster Recovery	Complete

Fraud and Corruption – Planned Audits	Progress as at 31st March 2016
Fraud Modules	Complete

Corporate / Cross Cutting Issues – Planned Audits	Progress as at 31st March 2016
Corporate Governance / Assurance Statement	Input to working group
Financial Advice / Working Groups	On going
Procurement	In Progress
Health and Safety	Complete

	Progress as at 31st March 2016
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 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</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
The policy states that policies and procedures should be regularly reviewed and updated to reflect changes in working practices and standards	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 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.	To ensure that the revised structure is effective and meets the needs of the constituent Council's	Internal Audit Consortium Manager Ongoing
		Review the audit Charter and Audit Manual in relation to the revised PSIAS that came in to effect from April 2016	Internal Audit Consortium Manager April – June 2016
		To review the test schedules for the main financial system to ensure still fully relevant and risk based.	Senior Auditors March 2017 And ongoing process
		To review other test schedules to ensure they still focus on key risk and governance areas.	Internal Audit Consortium Manager Ongoing process
		To develop test schedules for Safeguarding, Social Media, BACS	Internal Audit Consortium Manager/ Senior Auditors June - December 2016

Improvement Area	Current Situation	Action Required	Implementation Date / Officer Responsible
The standards ask if the internal audit activity has evaluated the potential for fraud and also how the organisation itself manages fraud risk	<p>The IAC has developed a fraud risk register.</p> <p>The “Protecting the public purse” checklist has been completed and any identified weaknesses addressed.</p> <p>The Audit Commission’s fraud modules are completed whilst undertaking main system reviews</p> <p>Participation in NFI</p> <p>Completion of the annual TEICCAF (The European Institute for Combating Corruption and Fraud) fraud survey.</p> <p>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</p> <p>June/July 2016</p> <p>June/July 2016</p> <p>September 2016</p> <p>July onwards</p>

Improvement Area	Current Situation	Action Required	Implementation Date / Officer Responsible
The Standards state that the internal audit activity should assess and make appropriate recommendations for improving the governance process.	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"	To review CIPFA's 2016/17 Delivering Good Governance publication and review each Council's compliance with this.	Internal Audit Consortium Manager Review summer 2016 implement for 2016/17 AGS

Improvement Area	Current Situation	Action Required	Implementation Date / Officer Responsible
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	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.	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	Internal Audit Consortium Manager/Senior Auditors Ongoing